A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, August 9, 2010 at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Bill Botzow, Vice Chair Mark Young*, Carolyn Branagan*, Jeff Davis*, Susan Hudson-Wilson*, David Potter*, Dale Rocheleau and Brian Sozansky*

MEMBERS ABSENT: None

REPRESENTATIVES PRESENT: Staff Representative Marie Tiemann and Student Representative Elizabeth Salsgiver

REPRESENTATIVE ABSENT: Alumni Representative Bill Cimonetti, Faculty Representative Albert Joy, and Graduate Student Representative (TBD)

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and University Treasurer Richard Cate, Chief Internal Auditor William Harrison, Chief Compliance Officer Anna Drummond*, Deputy Compliance Officer Erica Heffner, University Controller Claire Burlingham, Tanya Morehouse, State Auditor’s Office and Renee Bourget-Place and Sarah Timmerman of KPMG

*Participated via teleconference call.

Chair Bill Botzow called the meeting to order at 10:00 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the July 7, 2010 meeting.

Chair Botzow welcomed Amy Vile, whom was recently hired as an Administrative Assistant to the Office of Audit Services and Office of Compliance Services. Ms. Vile will be supporting the Audit Committee as minute taker.

Chair Botzow also presented a gift to Deputy Compliance Officer Erica Heffner for her outstanding service as former Interim Chief Internal Auditor.
Chief Internal Auditor Update

Chief Internal Auditor William Harrison offered a summary of internal and external audit activities noting that a hard-copy of his report was submitted to Committee members in advance of this meeting. He stated that since the May 10 meeting, his office has issued four reports and is in the process of completing two construction audits, two internal control reviews, and an audit to determine compliance with the Fair Labor Standards Act. Under external audit activity, he noted the USDA’s National Institutes of Food and Agriculture will be conducting a civil rights review focused primarily on employment, separation, hiring, and other Human Resource data beginning in September. A report was issued regarding the National Science Foundation FFR Review, which had no findings.

Mr. Harrison also reported that there are two requests for proposals (RFPs) in process and both are near completion, which includes a construction audit of the Simpson Dining Hall renovation. Additionally, John Copoulos has been hired as Lead Auditor and Lixia Li has been hired as Senior Auditor, both of which are new positions. Former Senior IT Auditor Chris Lamson recently decided to leave the University and the decision on whether to fill his position will be reevaluated next spring. Mr. Harrison concluded that his office is wrapping up control carryover work in the next month and is soon to start working on audits included in the FY 2011 Audit Plan.

University Controller Claire Burlingham added that her office is in the process of providing updated responses to the PurCard and the travel expense audits, which has brought forth many issues which are being addressed in a new policy that is currently under review by management.

Chief Compliance Officer Interim Update

Deputy Compliance Officer Erica Heffner provided an interim progress report from the Office of Compliance Services and noted that a comprehensive report will be presented by the Chief Compliance Officer at the next meeting. She noted that a hard-copy version of this report was submitted to Committee members in advance of the meeting. Ms. Heffner first discussed the data collection process that the Office has been working on, and from which a data collection form has been created. The data collection form is a useful tool in gauging institutional compliance needs and identifying emergent compliance trends. This tool was influential in identifying the need for a cross-functional University Work Group to address compliance and privacy issues that will be led by the Chief Compliance Officer and the Chief Information Officer.

Ms. Heffner noted that the University Community is beginning to turn to the Office as a resource on policies, specific compliance issues and overall compliance matters. The office receives frequent requests for compliance consults.

Trustee Dale Rocheleau inquired if there are compliance related persons whom are also risk owners. He also inquired if some compliance persons will have a dual role in
Enterprise Risk Management (ERM). Ms. Heffner stated that the compliance matrix will be helpful for the ERM process and this document will identify the primary University official responsible for each compliance requirement. Mr. Cate added that, in some cases, the people doing the ongoing compliance work are direct reports of those listed on the matrix.

Ms. Heffner also provided an update regarding the Compliance Help Line. A protocol has been recently finalized for this resource and it outlines an overview of the reporting system, describes response steps, Compliance Office responsibilities and departmental expectations. A matrix has also been developed which identifies types of issues that may be reported and designates the department that will respond to pertinent issues. The protocol addresses conflict screening as well. Chair Botzow indicated this has been a large piece of work and asked if Ms. Heffner had any reflections for next steps. Ms. Heffner replied that many previous issues have been addressed and her office will be rolling out an awareness campaign which will also serve to communicate the Code of Business Conduct policy.

Chair Botzow inquired if usage of the help line has met expectations so far. Ms. Heffner indicated that usage has been light, yet in-line with expectations for the first year.

**KPMG Update on FY10 Financial Statement Audit**

Renee Bourget-Place, of KPMG, provided a brief update regarding the FY 2010 Financial Statement Audit, which is being completed on target. Ms. Bourget-Place emphasized that this update serves only to report preliminary observations and should not be considered as final conclusions. So far, the majority of internal control testing has been completed and a fair amount of A-133 audit testing has been done as well.

Regarding major programs to be tested in the A-133 audit, in addition to the R&D and student financial aid clusters, KPMG will review final year end grant expenditures to determine whether there are potentially two other programs that may need to be tested. KPMG does not anticipate that the public service program will need to be tested. Other A-133 observations concern the research & development cluster and the student financial aid cluster. KPMG found that four out of fourteen federal 269 reports tested were submitted late and one out forty-five student status changes tested were submitted late. Ms. Burlingham added that all 272 reports were submitted on time and the degree of lateness for the 269 reports was substantially improved from prior years.

In regards to the Financial Statement Audit, Ms. Bourget-Place noted that two out of thirty journal entries tested were approved by the initiating person. She noted that these entries were prior to the system change over in September, which removed all self approvers. Another observation was that employee benefit statements are not reconciled on a regular basis and no documentation is retained to show evidence of the reconciliation or review. Chair Botzow asked if this is a new area of concern. Ms. Bourget-Place replied that this is a new observation in recent years, but had been a noted issued in the past. Mr. Cate indicated it is clear that this issue must be addressed. He
also noted that Ms. Burlingham is meeting with Human Resources next week and that he will report on a timeline and methodology for addressing this issue at the next meeting.

Chair Botzow indicated that, in the future, he would like to see comparables for KPMG’s findings. These comparables could be from peer or past institutional findings.

Ms. Bourget-Place continued by citing several observations regarding the IT Audit. She indicated that this audit is substantially complete and preliminary results have been shared with management who will offer a response. The general sense of the audit is that there has been notable improvement from the prior year. Mr. Cate added that it is not surprising that there may be areas of concern in this audit as there was carryover from the previous fiscal year and that most of the issues have been addressed since the recent change of systems.

Ms. Bourget-Place concluded her update by indicating that these observations are being shared prior to the final report so that management can begin addressing them. She stated that these findings seem to be much less eventful than those of recent years.

Chair Botzow inquired if Mr. Cate has been satisfied with recent improvements. Mr. Cate replied that his job is to never be satisfied with the pace, or level of completion, so that he can keep encouraging improvements. In terms of work that has been completed thus far, however, he is very satisfied. Mr. Cate took the opportunity to thank his team for their exceptional work. Ms. Bourget-Place added that the creation of the Business Centers, will be a very important improvement made by Mr. Cate’s team.

Information Security Officer Search Update

Mr. Cate indicated that finalists are currently being interviewed for the position of Information Security Officer. Additional candidates will also be interviewed and management is hoping to conclude this search in the near future. Mr. Cate pointed out that this is a very competitive field with a limited pool of qualified persons. He expects the search may conclude in the next month or so. In the interim, the current team is doing as well as they can with limited resources.

Mr. Cate also reported that the Information Security Operations team is making good progress on Payment Card Industry Data Security Standards (PCI-DSS). In terms of credit card use, some merchants with limited transactions have set up systems larger than they need, which reduce their levels of compliance. There is currently a group, and consultant, addressing credit card security. Chair Botzow inquired if a minimum purchase amount has been considered. Mr. Cate replied that there is no current plan to implement the minimum charge although it may be a topic of discussion in the future.

Approval of Amended Audit Committee Charter

Chair Botzow asked Mr. Harrison to lead the discussion concerning amendments to the Audit Committee Charter. Mr. Harrison stated that this charter will be reviewed annually.
The current amendments are primarily to address the changes associated with the separation of the audit function into an Office of Compliance Services and an Office of Audit Services, and to outline their specific responsibilities. Mr. Harrison indicated there were also several minor changes for department name changes, clean-up of outside organization names, and updates of audit standards. The amended Audit Committee Charter was vetted and reviewed by the Office of Audit Services, the Office of Compliance Services and legal counsel prior to being presented to the Committee. Chair Botzow indicated he would seek a motion to approve amendments to the Audit Committee Charter after discussing the amended Audit Charter.

Approval of Amended Audit Charter

Chair Botzow introduced the amended Audit Charter and noted that due to a large amount of edits, a redlined version was not distributed to the Committee and the original version was included for comparison. Mr. Harrison indicated that the primary changes are to incorporate new language concerning the Chief Internal Auditor’s (CIA) authority and responsibilities, the purpose of the Office of Audit Services, the reporting structure and new language on the Office’s adherence to professional standards and ethics. The Office’s purpose is in-line with the Institute of Internal Auditors’ standards.

The internal audit function is consistent with the prior Audit Charter, with the exception of a new section allowing the CIA to allocate resources, set frequencies, select subjects, determine the scope of work and apply techniques required to accomplish the audit objective. A section was also added to outline what the Office is not authorized to do.

In the section concerning Internal Audit Operations, language was added to indicate that the CIA is responsible for maintaining a professional audit staff, developing an annual risk-based audit plan, and proposing an annual budget that is sufficient to accomplish the risk-based audit plan.

The reporting structure remains the same, yet language has been added to allow the Office to monitor, evaluate, and verify (if appropriate) management’s responses to audit observations and recommendations.

A section was also added to ensure that the CIA and Office staff will meet or exceed the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

Mr. Harrison affirmed that legal counsel had reviewed the proposed amendments to the Audit Charter prior to this meeting. The proposed amendments had also been provided to Mr. Cate and Ms. Burlingham prior to the meeting.

Chair Botzow inquired as to why the Committee of Sponsoring Organization (COSO) Internal Control-Integrated Framework reference for assessing and mitigating business risk is not included in the amended Audit Charter. Mr. Harrison replied that COSO is not referenced in similar charters and that the adoption of the control framework for the
University was management’s responsibility. Chair Botzow followed-up inquiring if it would be helpful for management if the COSO reference were reinserted. Mr. Cate replied that it may be more helpful to cite the COSO reference in the Audit Committee charter. After more discussion, the Committee agreed it would be helpful to include the COSO reference and that management would provide a recommendation to the Committee at their next meeting as to which charter it will be referenced in. As a result, the Committee will take action on the Audit Charter and the Audit Committee Charter at the next meeting. Additionally, several typos were noted and will be corrected.

Other Business

Chair Botzow announced, in consultation with Board Chair Robert Cioffi and Mr. Cate, that the Enterprise Risk Management (ERM) Work Group will be reconstituted. Trustees Dale Rocheleau, Carolyn Branagan and John Hilton have agreed to serve. The ERM Work Group will serve on behalf of the full Board, as a resource to management. Mr. Rocheleau will serve as the Work Group’s leader and will work closely with Mr. Cate to ensure that there is coherent knowledge of the University’s plans, progress and implementation of ERM. Mr. Cate added that a request for proposal has been issued for an external consultant to review the proposed process which will be brought back to the Board.

The Committee briefly met with the internal and external auditors. In addition, Chair Botzow led a discussion on best practices related to how the Committee can fulfill its responsibility to meet with, listen to, and question the University’s independent auditors, the Chief Internal Auditor, the Chief Compliance Officer, and senior management on a one-on-one basis. Chair Botzow asked the Chief Internal Auditor to research best practices and develop a draft protocol (taking into consideration the requirements of the Vermont Open Meeting Law) for presentation to the Committee at the next scheduled meeting in October.

Adjournment

There being no further business, the meeting was adjourned at 11:17 a.m.

Respectfully submitted,

Bill Botzow
Chair