A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Wednesday, December 15, 2010 at 2:30 p.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Bill Botzow, Vice Chair Mark Young, Jeff Davis*, David Potter*, Dale Rocheleau and Brian Sozansky*

REPRESENTATIVES PRESENT: Graduate Student Representative Daniel Sanchez and Staff Representative Marie Tiemann

ABSENT: Trustees Carolyn Branagan and Susan Hudson-Wilson, Alumni Representative Bill Cimonetti, Faculty Representative Albert Joy, and Student Representative Elizabeth Salsgiver

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, Director of Risk Management Mary Dewey, Tom Salmon and Tanya Morehouse*, State Auditor’s Office and Renee Bourget-Place and Heather Kuney of KPMG

*Participated via teleconference call.

Chair Bill Botzow called the meeting to order at 2:40 p.m.

After a round of introductions, Chair Botzow welcomed Daniel Sanchez who was recently appointed as the new Graduate Student Representative to the Audit Committee.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 11, 2010 meeting.

Chief Internal Auditor Update

Chief Internal Auditor William Harrison referred to his written update previously distributed to Committee members. The Office of Audit Services has issued three reports since the October Audit Committee meeting including the following: Morgan Horse Farm Internal Control Report; Audit of Compliance with the Fair Labor Standards Act; and Unplanned Review Addressing a Personnel Matter. He also discussed several works in progress which are in various stages.
Mr. Harrison briefly summarized several education and outreach activities. He was invited to speak on the subject of internal controls at a UVM Extension staff/faculty workshop; a meeting of UVM campus-wide human resource representatives; and at a Center on Disability and Community Inclusion staff/project coordinator meeting.

Mr. Harrison next summarized how Office of Audit Services staff members have logged work hours since October 1 – November 30, 2010. He noted that the majority of hours have been committed to unplanned activities. He was pleased to report that the percent of time devoted to activities listed in the audit plan has increased and he is optimistic of achieving the plan’s goals this year.

He noted that the Office of Audit Services staff attended an all-day training event in Montpelier, VT, on the topic of fraud interviewing techniques. The training demonstrates the Office’s commitment to provide relevant and cost-effective professional education to Audit Services staff as required by professional standards and to establish professional relationships with other Vermont internal auditors.

Chair Botzow referred to the Morgan Horse Farm Internal Control Report and asked if Mr. Harrison was happy with the resolution of this audit. Mr. Harrison indicated he has been quite happy with the process and that management has been responsive. By looking at the Morgan Horse Farm Internal Controls beyond the scope of the original review, the Office was able to make positive recommendations to improve the Farm’s many business processes. His office will be revisiting the farm this spring to verify that they have implemented the report’s recommendations.

Chief Compliance Officer Update

Chief Compliance Officer Anna Drummond reviewed the Office of Compliance Services (the Office) report previously distributed to Committee members. The first topic she covered concerned areas of the Compliance Workplan. In reference to research compliance, the Office has continued to work with a number of preexisting groups in dealing with various issues including facilitating cross departmental discussion and issue resolution at the institutional level. In reference to privacy, information security, and data retention, the Office has established a Compliance Work Group which is co-chaired by David Todd, the Chief Information Officer. The Work Group is collaborating with Mr. Harrison and external consultants retained by his office, to review data on campus and then strategize on how to use this data. Ms. Drummond also discussed Laboratory safety, noting the she will be co-chairing a Work Group with the Director of Risk Management Mary Dewey, to address this issue.

Ms. Drummond moved on to discuss Government Reviews. The Government Reviews Protocol has been distributed to all Deans, Directors, Chairs and Managers through the Vice President for Executive Operations Gary Derr. The protocol will be further distributed and is posted on the Compliance website. She provided a synopsis of two reviews that have been completed since the last meeting. The first review was conducted by the Environmental Protection Agency and focused on financial management of grant
funds. The second review was conducted by the Department of Labor Office of Federal Contract Compliance and was related to the University’s Affirmative Action Plan. There were no findings in either review.

The Office has been assisting Vice President of Executive Operations Gary Derr in regards to reviewing and improving University related Conflicts of Interest and Conflicts of Commitment (COI) policies. Training and awareness, as well as electronic processes for COI management, are being pursued.

The Office has been addressing new issues as well. The first concerns new rules promulgated by the Department of Education to improve “program integrity” in Title IV student aid programs. The Office will be working with General Counsel to create a matrix for compliance assessment and planning to occur over the next few months. Another issue concerns preparations for application of the newly enacted Patient Protection and Affordable Care Act. A Health Care Reform Task Group has been formed to address this issue.

Ms. Drummond provided an update regarding the compliance survey that was disseminated in September. The survey’s intent is to provide baseline figures concerning compliance awareness at the University. Response results showed a general lack of awareness. Ms. Drummond emphasized that creating a “culture of compliance” is a type of social marketing. She outlined several ways in which a marketing effort has been commenced and indicated that branding and awareness should be impacted in the coming year. The Office plans to reissue the survey after twelve months to measure progress.

The Office has collected compliance data on the work performed by the University from March 29-Nov 30, 2010 and it was included in Ms. Drummond’s report.

The Office, as administrator of the Compliance Help Line, has received one report since the October Audit Committee meeting, making the total of nine to date. Five of the nine have been closed. Also, four have been referred for investigation, four referred to management and one issue was outside of the Compliance Help Line’s scope and referred back to the reporter.

Trustee Dale Rocheleau asked what the return rate is in regards to the current COI policy. Ms. Drummond responded that the policy affects officers of the administration only and they are looking to reach out to larger group once best practices have been thoroughly researched and discussed. Of the current officers group, they are working on 100 % compliance.

In reference to the Compliance Survey, Chair Botzow inquired if Ms. Drummond was surprised about general lack of knowledge in reporting compliance issues, and also regarding general fears of retaliation. Ms. Drummond indicated she was not surprised since there was very little education on this topic prior to her arrival. She also stated that retaliation fears can be alleviated by generating a cultural of understanding through the communications program. Chair Botzow followed up by asking if members of the
administration are suitably aware of these fears and if they have stepped up to distribute the right message. Ms. Drummond indicated they are aware and are currently working on communicating the proper message.

Chair Botzow thanked both Mr. Harrison and Ms. Drummond for their reports and suggested that at the end of this annual cycle, they should reflect on how their offices collaborate. They should determine what processes are currently working and how improvements can be made moving forward. He asked that they report back to the Committee with any observations and recommendations that result from this reflection.

Presentation of the FY 2010 Financial Report and Management Letter Findings

In regards to the presentation of the FY 2010 Financial Report, Renee Bourget-Place, of KPMG, indicated she was not going through the statements in detail, but opened the meeting to questions. There being none, she commenced her presentation. She first outlined the KPMG’s audit objectives. The first objective was to conduct an independent audit of the University’s financial statements in accordance with generally accepted auditing standards and Government Auditing Standards. The second objective was to provide the Board of Trustees with independent audit assurance as to whether the FY 2010 statements are presented fairly, all material respects, in accordance with U.S. Generally Accepted Accounting Principles. The last was to provide the Board of Trustees additional information regarding the audit and the University’s accounting and financial reporting process as required under SAS 114. She emphasized that the audit opinion is unqualified. The byproduct of this audit is the management letter. Findings resulted in no material weaknesses or significant deficiencies.

Ms. Bourget-Place next discussed the control environment. KPMG noted there were no matters involving the internal control structure and its operation that they consider to be material weaknesses or significant deficiencies. In general, KPMG looked at broad programs as well as certain areas. In looking at fraud, there are required elements as listed in the Statement of Auditing Standards No. 99. More importantly, KPMG brainstorms as a team and then works with management. Chair Botzow added that because of the vastness of this type of audit, it does not mean that fraud will not occur. They are mostly addressing fraud at significant dollar values.

Ms. Bourget-Place introduced Heather Kuney, whom has been assisting this audit while Sara Timmerman is out on maternity leave. Ms. Kuney discussed areas of emphasis, noting that there were no significant changes from their planned audit approach. Areas of emphasis included revenues, investments (including alternative investments), earnings and spending, contributions, expenses (including capital and debt), personnel costs, as well as other areas. Ms. Bourget-Place added that they used an actuary to approve the reasonableness of assumptions.

Chair Botzow inquired as to what section deferred maintenance was addressed. Ms. Bourget-Place stated that it shows up in areas that include fixed assets and operating costs, depending on the scale of the deferred maintenance. She added that deferred
maintenance money that has not been spent is not a liability and therefore not part of the financial statements. Vice President Cate stated that the University is nowhere near keeping up with the depreciation rate. He also indicated they have an external consultant that is assisting with a detailed process for this issue.

Trustee Rocheleau inquired how the UVM Foundation, once it is officially approved by the Board, will fit into the financial statement audit. Ms. Bourget-Place replied that an analysis addressing this issue will be conducted once they know more about how the Foundation will be structured. Trustee Rocheleau requested that Vice President Cate provide a report to the Committee once these details are established. Vice President Cate indicated he will be meeting with incoming Vice President for Development and Alumni Relations Richard Bundy and General Counsel, over the next several months to discuss this and will report back once they have more direction.

Ms. Bourget-Place next moved on to discuss the Management Letter and explained that these outline KPMG’s recommendations for management and are not significant deficiencies. She went through each item individually, with Vice President Cate summarizing management’s response to each. The first recommendation concerned employee benefit reconciliations of which they suggested implementing formal reconciliation processes for employee benefit plan expenses, as well as the census data used in developing the postretirement benefit liability recorded in the financial statements. Vice President Cate concurred with the findings and recommendation. He indicated management is working with a third party to address this issue. Trustee Young recalled this was an issue when he was serving on the Board several years ago. Ms. Bourget-Place acknowledged it has been an issue that was addressed, and there was a lapse in the revised process. Vice President Cate added that he thinks that when the manual system turned over to an automated system, the established procedure was no longer working.

The next recommendation concerned the depreciation expense related to fixed assets. KPMG noted that the University does not currently perform a review over fixed asset additions to ensure that the useful life assigned to new fixed assets is appropriate given the guidelines established in the Capitalization Policy. They recommend that the University review its procedures and controls surrounding the addition of assets in the fixed asset system to ensure accuracy of the data and the useful life assigned to each asset. Vice President Cate concurred with the finding and recommendation. He stated Management will address this issue.

Another recommendation concerned the University’s lack of procedures for determining when an investment is considered impaired in its Investment Policy. Ms. Bourget-Place indicated this issue is more of a documentation exercise. KPMG had found there were two non-marketable investments that UVM was reporting at cost, but their fair value had been below cost for several years. The recommendation is for the University to develop a formalized policy or process for evaluation investments for impairment to ensure they are being evaluated on a regular basis and the determination and treatment of the impairment is consistent. Vice President Cate replied the particular investments being discussed were
under the purview of the Investment Subcommittee (ISC) of the Board of Trustees. He plans to work with University Controller Claire Burlingham to draft a policy they will run by the Investment Sub Committee (ISC), then to this Committee, and then to the Board for final review. Chair Botzow asked how the University can be assured that the numbers they receive in relation to investments are properly audited. Vice President Cate replied that several years ago, the University had to contact all of their investment managers and get audits or assurances of procedures from them, which proved to be a quite difficult and tedious process. This process is not as difficult currently due to changes in accounting standards. Ms. Bourget-Place added that in most instances, the fact that the managers’ record at cost instead of market is making them more conservative. Chair Botzow indicated he was not so concerned about specific managers, but rather the level of risk in general in that area to the University and the control construct to ensure no significant risk. Ms. Bourget-Place replied that she feels management is currently following a proper control construct to address risk by requesting regular statements, having regular manager calls, and overall being proactive. Trustee Young expressed concern that management might not be as involved with ISC decisions as they should be. Vice President Cate explained the University contracts with Cambridge and Associates to assist the ISC with investment decisions. Management attends the ISC meetings and serves to enact decisions made, but does not make them for the ISC.

The next finding concerned investment reconciliations. The University uses third party investment managers to manage various funds, and the actual investments are held by thirty party custodians. KPMG recommends that the University implement a reconciliation process to reconcile the activity per the investment manager statements to the investment custodian statements to ensure the activity initiated by the managers is properly recorded in the custodian’s record. Vice President Cate responded that management agrees and will address this issue.

Ms. Bourget-Place moved on to address improvements needed with the University’s self-insurance program reserve. It has historically been the policy of the University to conduct an actuarial review on a biannual basis over their self insurance reserves to ensure it is reasonable and properly valued. Based on this history, this review should have occurred in FY 2010 and was not completed. The recommendation is that the University ensures this review is conducted on the biannual basis or more frequently if major changes are implemented in the program. Vice President Cate acknowledged this finding and indicated that other issues overcame it as a priority even though it should have been completed. Trustee Young suggested that this Committee should hear from the risk group. Director of Risk Management Mary Dewey added that this review was under her charge and she was unable to complete it due to her commitments to working on the Enterprise Risk Management program. Chair Botzow suggested that once the review is completed, the Committee should be educated in this particular area. Vice President Cate affirmed that once the review is completed, his department would report back to Committee.

The last observations discussed concerned Information Technology (IT). Ms. Bourget-Place stated that KPMG IT specialists looked at certain controls primarily related to
PeopleSoft and network, but did not conduct a comprehensive review. The first observation discussed was that the University does not have a formal documented IT Security Policy specific to the University’s financially significant applications. Vice President Cate responded that his office began addressing this issue last year and conducted an extensive amount of benchmarking work. They had a detailed policy ready for approval, but it was determined by leadership that rather than having a 68 page policy, it should be shortened, with a reference to a more detailed protocol document. The policy and protocol are anticipated to be fully implemented in early 2011.

The next IT observation concerned the University’s need for a Chief IT Security Officer. Vice President Cate indicated this position had been posted and they anticipate filling the position in early 2011. He added that they will also hire a second support person in this area. Chair Botzow inquired if these hires will be internal, to which Vice President Cate affirmed. He also indicated that the internal hires will receive pertinent training if they do not have proper expertise.

The third IT observation concerned password management. Vice President Cate indicated that his department is looking to implement an efficient process which will minimize risk. This process will move network password and PeopleSoft password management closer to consistency.

KPMG made several observations related to management’s process for reviewing network access to the PeopleSoft financials application for current and terminated employees. Vice President Cate stated management is addressing this issue, but may not be able to make it 100% perfect due to lack of resources and the need for some persons to have multiple roles.

The last IT recommendation is that the University IT management document the change process for infrastructure/network changes. Vice President Cate indicated they are hoping to have this completed by June 2011.

Vice President Cate thanked Controller Burlingham and her team for their hard work, resulting in no significant deficiencies found in the FY2010 Financial Statement Audit. Chair Botzow also thanked management and KPMG for their excellent work.

Trustee Rocheleau inquired if there was a requirement that the Chief External Auditor rotate out every couple of years. Ms. Bourget-Place responded that KPMG’s internal policy is a 10-year rotation and the University’s rotation requirement is 7 years. Vermont State Auditor Thomas Salmon expressed thanks to the many parties involved in this audit.

**Recommendation of the FY 2010 Audited Financial Statements to the Board of Trustees for Acceptance**

At the conclusion of the previous discussion, the following resolution was presented for approval:
Acceptance of Fiscal Year 2010 Audited Financial Statements

WHEREAS, the books and accounts of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2010, 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 hereby accepts and recommends to the Board of Trustees for acceptance the FY 2010 Audited Financial Statements.

A motion was made, seconded and it was unanimously voted to approve the resolution as presented.

Enterprise Risk Management Update

Enterprise Risk Management (ERM) Work Group Leader Dale Rocheleau discussed the Work Group’s meeting held November 16th. Trustee Rocheleau recalled that Arthur J. Gallagher Rick Management Services, Inc., a consulting firm, had been hired to benchmark the University’s proposed policy against peers and to provide a report containing the results and listing recommendations. The ERM Work Group has received and reviewed the final report. At their last meeting, they discussed implementation of ERM, design issues, and considered President Daniel Fogel’s memo regarding the report. There are several issues to consider concerning design, and one of the most important is that the ERM policy be one that is embraced by the entire University. Vice President Cate will prepare a formal presentation for the February 3 Audit Committee meeting.

Vice President Cate added that his Executive Assistant, Al Turgeon, has been appointed Senior Strategist for Enterprise Risk and Planning and his responsibilities will be working in tandem with Director for Risk Management Mary Dewey. Director Dewey’s duties will be operationally focused and Senior Strategist Turgeon will focus on links between risk management, the budget, and the University’s strategic plan. An ERM Executive Committee has been appointed to spearhead ERM implementation and will include, Provost Jane Knodell, Vice President for Legal Affairs and General Counsel, Vice President Cate, Vice President for Enrollment Management Chris Lucier, Vice President for Student and Campus Life Thomas Gustafson, and Vice President for Research Domenico Grasso. Vice President Cate will report regularly, on behalf of the ERM Executive Committee, to the Audit Committee and annually to the Committee of the Whole. Chair Botzow asked if management has looked at best practices concerning this Committee model. Vice President Cate replied that Senior Strategist Turgeon, as well as the external consultants, conducted significant research concerning best practices. He indicated that the most important lesson gained through this research is that the final model must have a process that does not place too much weight on people where they can not complete the rest of their work. Chair Botzow emphasized that a huge key to the success of ERM is that understanding and embracement occur at the highest level of
University, which is a key element to the focus of the ERM Executive Committee and for their reporting to the Audit Committee and Committee of the Whole.

**Purchasing Card, Travel Expense, and Effort Reporting Audits – Management Corrective Action Plan Update**

University Controller Claire Burlingham provided an update on the status of management’s corrective action plans for the purchasing card, travel expense, and effort reporting internal audits. Ms. Burlingham first discussed the travel audit. Main issues of noncompliance included supporting documents not submitted timely, supporting documents not being submitted at all, attestation signature of traveler not obtained, approval by supervisor not attained, and receipts are not original and itemized. Corrective action has taken place over the last six months, with the Travel Policy having received significant review. The revised policy will be ready to be distributed for comment from the University community by early 2011, with the goal it would be implemented soon after. Additional action taken is that the Controller’s office has had a lot of responsibilities shifted to their office from Procurement. Also, a filter has been placed so that every 20th travel report is extracted for review by General Accounting. The Controller’s office has undergone a mini-reorganization as well. Vice President Cate added he has heard from a number of groups that asked that the revised policy be loosened up a little bit, particularly in concern to foreign travel where receipts might not exist. This request has been considered in the revisions. Another suggestion was that there be a per diem policy, rather than straight-line, but a per diem policy would not be in line with Internal Revenue Service policies that the University is subject to.

In regards to the Pur Card audit, issues found were unallowable merchant categories, inconsistencies between Pur Card guidelines and the Travel Policy, lack of supporting documentation, sharing of Pur Cards, Pur Card approval process, timeliness for submission of Pur Card journals and expense reports, and Pro Value Software being obsolete. Extensive reviews concerning these issues have been completed and will continue quarterly. Revisions to the Travel Policy will also help address these issues. Pur Card journal reports have been modified and will be rolling out in January. A statement attesting to supervisory responsibilities are now required for every Pur Card issued. Also, as cards expire, and are renewed, cardholders are required to sign a responsibility agreement to fully understand the responsibilities of having a card and the consequences for abusing card privileges. An additional review is in process to ensure cardholder and supervisor alignment. Realignment has also been completed of duties in procurement services where half of an FTE will be devoted to Pur Card reviews. The review schedule has been modified to tighten the notification schedule for past due card journals and if a journal is more than two accounting periods late, the card will be suspended. Finally, a query is being developed to determine if there are individuals who have both a Pur Card journal and travel expense report for that period. If they do, then the expense report and Pur Card journal will require further review.

The last audit discussed was in regards to Effort Reporting. Controller Burlingham indicated substantial progress has been made in this area. Quarterly verification is
required and the University has purchased an on-line monitoring software program that is in the process of being implemented. A process update was also submitted to the College of Medicine’s Deans office which informed them that a position action form is required to be submitted to Human Resources in order to make a retroactive Fletcher Allen Health Care salary change. Effort reporting training has been rolled out over last year and will continue moving forward.

Financial Operations Manual

There being lack of meeting time remaining, the Committee agreed to defer this topic until their February 3 meeting.

Information Security Officer Search Update

This information was covered in the previous discussion regarding the FY 2010 Financial Report and Management Letter Findings.

Higher Education Opportunity Act 2008 (HEOA) Update

Chief Compliance Officer Anna Drummond recalled that the Higher Education Opportunity Act (HEOA) is a comprehensive law that impacts numerous areas at the University. She indicated that a matrix of HEOA implementation has been created. Ms. Drummond presented the matrix to various groups on campus to determine if they are in compliance with this law and discovered a few areas where there were minor gaps. She also indicated that a one-stop HEOA disclosure page has been created as a best practice.

Other Business

At 4:14 p.m., the Chair entertained a motion to enter into Executive Session for the purpose of discussing attorney-client privileged correspondence, contracts, and the evaluation of public officers. The motion was made, seconded and approved. All in attendance were excused from the meeting with the exception of Trustees, Vice President Cate, Chief Compliance Officer Anna Drummond, Deputy Compliance Officer Erica Heffner, Tom Salmon and Tanya Morehouse of the State Auditor’s Office, and Renee Bourget-Place and Heather Kuney of KPMG.

CCO Drummond and Deputy Compliance Officer Heffner were excused from the meeting following the first executive agenda item.

Ms. Bourget-Place and Ms. Kuney were not present for the first two items, but were present for the third item.
Adjournment

At 4:45 p.m. the meeting was re-opened to the public. There being no further business, the meeting was adjourned.

Respectfully submitted,

Bill Botzow
Chair