A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, March 8, 2010 at 1:30 p.m. in the 427A Conference Room, Waterman Building.

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

MEMBER ABSENT: Dale Rocheleau

OTHER TRUSTEES PRESENT: Brian Sozansky

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy and Staff Representative Marie Tiemann

REPRESENTATIVE ABSENT: Alumni Representative Bill Cimonetti and Student Representative Hannah LeMieux

PERSONS ALSO PARTICIPATING: Richard Cate, Vice President for Finance and Administration and University Treasurer; Claire Burlingham, University Controller; Erica Heffner, Interim Chief Internal Auditor; Jennifer Gagnon, Director, Grant and Contract Administrative Services; Tom Salmon* and 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 1:30 p.m. and welcomed new Committee members.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the January 19, 2010 meeting.

Announcement of new Chief Internal Auditor Appointment

Chair Botzow announced the selection of William Harrison as Chief Internal Auditor. He will begin his position on Monday March 15, 2010. Most recently he was the Director of the Office of Sponsored Programs at Rochester Institution of Technology and formerly was the Deputy Associate Inspector General at the National Science Foundation (NSF). This selection along with the selection of the new Chief Compliance Officer will be announced to campus shortly in a press release. It was noted that Mr. Harrison brings a
strong research compliance background to this position that will be beneficial to the University’s growing federal research base.

**Update on Internal Audit Activities**

Erica Heffner, Interim Chief Internal Auditor, reported the status of the travel audit which encompassed airfare, automobile rentals, lodging, meals, mileage and other travel expenses paid during the third quarter, FY’09. Changes to the processing of travel reimbursements brought about by the implementation of the PeopleSoft accounting system resulted in greatly reduced central oversight and monitoring of travel expenses. The sample tested totaled $120,652 or 5% of the third quarterly dollar amount. Test work included 148 travel transactions representing 122 employee reimbursements. Total travel expenses for fiscal year were nearly ten million dollars.

Areas of concern noted included:

- The greatest concern identified addressed adequacy of travel documentation requirements. The audit results showed, 12.8% of expense reports were not submitted to Procurement, 11.8% of submitted expenditures that required receipts were missing receipts, and of the required receipts submitted, only 65.3% were adequately supported;
- Controls over Athletic Department travel team meals;
- Timeliness of Travel Report Submissions;
- Consistency and clarification of required approval documentation and traveler certifications.

Management’s corrective action plan addressed these concerns. Claire Burlingham stated that a plan has been put into place for Procurement to look at every twentieth travel transaction. Inconsistencies in the travel policy and the business meals policy are being addressed and should be ready for review by the Vice President for Finance and Administration by the end of this spring semester. The Controller will return to the Audit Committee periodically to update them on progress on this issue.

A module in the 9.1 version of PeopleSoft for pre-audit will be turned on in the near future which performs greater central oversight and verification. Increased training will also be provided on the travel and business meals requirements. Ms. Burlingham stated that travel reimbursement checks will now be withheld until all receipts have been received.

Ms. Heffner noted that Audit Services has completed test work for the current audits of Conflict of Interest policy and controls over hiring of temporary employees; the audit staff is drafting reports for management response. The Internal Audit Office is also investigating a Purchasing Card misuse situation.
In reporting external audit activity Ms. Heffner noted the Department of Defense (DoD) audit has expanded its planned audit to include the NASA awards and their visit has been postponed to late March/April. In an additional notice the Department of Labor is performing a desk audit for compliance with our Affirmative Action Plan and I-9 form compliance. Requested documentation has been submitted and the University is awaiting notification if there is need for additional review.

On behalf of the Audit Committee, Chair Botzow thanked Erica Heffner for her outstanding efforts as Interim Chief Internal Officer. It was also noted that Lois Schuster, Assistant Controller for Financial Reporting and Accounting Services, will retire at the end of the month and the Committee voiced its appreciation for all her dedication and hard work. Lindsey Donovan, the Staff Accountant in this area will be filling this position.

**Review of 2009 NCAA Agreed-Upon Procedures Report**

Sara Timmerman, KPMG, led the discussion of this year’s NCAA Report. It was noted that this report is given to the President and not filed with NCAA. Mark Young questioned the basis of the materiality thresholds identified in the report. It was noted that management determines materiality and sample sizes. Richard Cate will speak with his management team and KPMG as well to see what our peers are using and report back to the Committee with his findings. Electronic submission of the Statement of Revenue and Expense to the NCAA is required by January 15 each year.

Ms. Timmerman noted a significant improvement in the review process and reduction in the number of errors. Reclassification errors noted were significantly lower and resulted in fewer adjustments to the Statement. The implementation of the budget-to-actual process by line item improved reporting. Continued improvement of the budget process is recommended in the future.

Richard Cate thanked Claire Burlingham, Lois Schuster and Ted Winfield, Associate Vice President for Financial Analysis and Budgeting, for improvements in this area. The next area of emphasis will be on athletic sports camps, which Claire Burlingham and her team are already working on.

**Review of 2009 OMB Circular A-133 Report**

Renee Bourget-Place, KPMG, reported the total federal expenditures for FY’09 were $208,568,794. Major federal programs were:

- Student Financial Aid Cluster - $94,261,308
- Research and Development Cluster - $89,869,632
- Medicaid Cluster - $8,413,729
- Smith Lever Cluster - $3,579,071
For the financial statement, the University received an unqualified opinion. On the report on internal control and compliance based on audit of the financial statements, their opinion was unqualified with no material weaknesses. On the compliance and internal control at the program level there were two findings, one of which was classified as a significant deficiency. Certain requirements performed by our Loan Servicers were not audited by KPMG because they were audited by the third party servicer auditor.

The two findings included in this report were:

1. Cost Transfers (R&D)
   - 3 out of 30 cost transfers were performed 90 days after the date of the original expense transaction, but did not have a late cost transfer memo, as required by the University policy
   - 7 out of 30 cost transfers were not approved by a member of grant and contract accounting
   - This finding is considered a significant deficiency over the allowability compliance.

Richard Cate responded by saying that a team was put in place in November 2008 and many of these late issues have already been addressed. KPMG reported an increase in accuracy and decrease in degree of lateness in the reports was achieved in the last half of FY’09. The ultimate goal is not to have any significant deficiencies next year.

2. Student Financial Aid Finding
   - 2 out of 30 students selected for review of verification forms had variances between AGI per the tax returns and AGI per the application in excess of $400.
   - This is considered a compliance finding.

Further work is needed by the Student Financial Services area to ensure compliance in the future.

**FY’10 External Audit Plan**

Ms. Bourget-Place outlined the plan for the FY’10 audit. The following programs and their potential for inclusion in the FY10 A-133 audit were identified:

- R&D Cluster – a major program required to be audited every year due to its size and complexity (~$90 million in expenditures in 2009)
- SFA Cluster – Included due to ARRA funding and the size of the program (over $94 million in 2009). It is uncertain if it will be required to be considered high risk due to ARRA funding; but expected to be audited to meet the percentage of coverage rules (50%).
- Medicaid Cluster – included due to expected ARRA funding.
Smith Lever – will not be included in 2010 as there were no control deficiencies or findings reported as part of the FY’09 A-133 audit. The way this is written it is unclear whether or not Smith Lever is included.

Public Service Program – a potential major program in 2010 due to ARRA funding. Current expenditure levels are below $300,000 and if this remains the threshold, no requirements exist to perform a risk assessment.

Final determination regarding programs to be included for audit rests on a number of factors. OMB and several federal agencies indicate they believe $1 of ARRA funding should require a program to be considered high risk and thus be audited. This low threshold is being questioned and potential changes to the threshold may still be forthcoming. KPMG is awaiting resolution with the issuance of the OMB Circular A-133 Compliance Supplement. Ms. Bourget-Place will keep the Audit Committee abreast of any significant schedule or material changes that will impact the audit requirements.

Executive Session

At 2:50 p.m., a motion was made, seconded and approved to go into executive session to discuss the evaluation of a public officer. All in attendance with the exception of Trustees and State Auditor Representatives Tom Salmon and Tanya Morehouse were excused from the meeting. Former Committee member John Snow was invited to participate and joined via phone.

Adjournment

At 3:15 p.m., the meeting was re-opened to the public. There being no further business, the meeting was adjourned.

Respectfully submitted,

Bill Botzow
Chair