AUDIT COMMITTEE  
BOARD OF TRUSTEES  
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE  

A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, April 25, 2011 at 8:30 a.m. in room 427A Waterman Building.

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

MEMBERS ABSENT: None

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy, Staff Representative Marie Tiemann, Alumni Representative Bill Cimonetti and Student Representative Elizabeth Salsgiver***

REPRESENTATIVE ABSENT: Graduate Student Representative Daniel Sanchez

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration and University Treasurer Richard Cate, Chief Internal Auditor William Harrison, Chief Compliance and Privacy Officer Anna Drummond, University Controller Claire Burlingham, Senior Strategist for Enterprise Risk Management Al Turgeon, Risk Management Director Mary Dewey, and Tanya Morehouse of the State Auditor’s Office*

*Participated via teleconference call.  
**Participated from 8:30-9:15 a.m.  
***Participated from 8:30-9:30 a.m.

Chair Mark Young called the meeting to order at 8:35 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the February 3, 2011 meeting.

Chief Compliance and Privacy Officer Update

Chief Compliance and Privacy Officer Anna Drummond provided an update on Compliance activities since the last Committee meeting, but also presented: (i) an overview of the Office of Compliance and Privacy Services work over the past year, and (ii) the Office’s FY 2012 work plan, which was detailed in her written report previously provided to the Committee.
She began with an update on the FY 2011 Compliance Work Plan in the area of research compliance. The Office has continued its work with the Effort Management and Reporting Subcommittee and with the Implementation Team for the new software associated with effort management and reporting. The adoption of certain recommended changes to existing practices is currently under management review. As part of this work, Ms. Drummond has advised on policy development, had the group look to external counsel, and provided guidance in the area of regulatory compliance.

In the area of privacy, information security and data retention, the Chief Compliance and Privacy Officer reached out to the Chief Information Officer (CIO) to form a Work Group for this subject matter. The initial step of inventorying the data held on campus was undertaken by the work group with the assistance of consultants. Workshops were held on campus to gather information and provide education on privacy and security issues. Representatives in attendance included over forty offices with members of Staff Council and Faculty Senate in attendance. A final workshop will be conducted by Ms. Drummond and the CIO for those offices unable to attend the earlier sessions. This final workshop will conclude the data collection process. The next steps will include data analysis of the information gathered through the workshops, as well as surveying best practices and legal requirements in order to ultimately provide the campus community with central guidance about how data ought to be collected, retained, shared and destroyed.

Also, as part of her work in the area of Privacy and Information Security, Ms. Drummond reported that she developed and has implemented a Data Security Breach Notification Policy and Procedure. This new policy, drafted by the Compliance Office, provides for a timely and coordinated University response to adverse privacy incidents. It reflects the role that she has undertaken in working with Enterprise Technology Services (ETS), Office of General Counsel, management, and communications in responding to security incidents.

In the third area of the FY 2011 Compliance Work Plan, laboratory safety, the Chief Compliance Officer continues with her assessment of the University’s general compliance in this area. The Work Group on Laboratory safety, co-chaired by the Chief Compliance Officer, the Director of Risk Management and the Chief of Staff of the Office of the Vice President for Research is working toward the completion of creating a new institutional laboratory safety policy that will stress communication, coordination, accountability and oversight. An advisory panel of stakeholders, including researchers, will also be created to assist in this process.

Ms. Drummond moved on to discuss the FY 2012 Compliance Work Plan. The Office created its FY 2012 Work Plan by conducting an in-depth compliance risk assessment that expands and updates the work done by her Office to complete last year’s compliance risk assessment. It also reflects the experiences of Chief Compliance Officer at UVM gained over the past twelve months, and the data collected by the Office in that time. The purpose of the risk assessment is to identify the areas of highest compliance risk and have those risks addressed through the subsequent year’s Work Plan.
In addition to carrying forward last year’s multi-year projects of Privacy, Information Security, and Data Retention, and Laboratory Safety, Ms. Drummond stated that the FY 2012 Compliance Work Plan will address differing research issues, human resources/employment issues, and the newly promulgated program integrity rules, the latter of which were described at a prior Audit Committee Meeting. The steps taken in creating the Compliance Risk Assessment and Compliance Work Plan were detailed for the Committee in a prior written report, and included: interviews and consultation with campus stakeholders; reviews of internal and external audit reports; identification of issues and trends experienced through compliance consultations, Helpline Reports and Government Reviews of the past year; review of other university work plans and discussions with other Compliance Officers; review of professional higher education professional organization publications, and analysis of compliance risks in accordance with a modified (Committee of Sponsoring Organizations of the Treadway Commission) framework to prioritize risk.

The Office continues to conduct extensive outreach with the University community in order to discuss compliance issues and further create a culture of compliance. A listing of outreach activities was shared with the Committee. Notably, Ms. Drummond was pleased to address the Faculty Senate for a second time, most latterly on Privacy issues. In addition to presenting at Staff Council, the Council of Deans, and various faculty department meetings, she has presented to the President’s Senior Leadership regarding a number of compliance issues and has provided that group with a year in review retrospective of her work. The latter allowed for them to understand what the Office has achieved in the Compliance area, but more importantly, provided them with the Chief Compliance Officer’s compliance assessment and report on existing compliance areas within the current work plan as well as the compliance areas then under consideration for the FY 2012 Compliance Work Plan.

Ms. Drummond moved on to the Office’s work on Government reviews. The Chief Compliance Officer drafted the Government Reviews Protocol which is available on the Compliance website and was broadly distributed. Ms. Drummond noted she used data collected from this past year’s government reviews to identify trends; these trends were then used both with respect to the Compliance FY 2012 Work Plan, as well as to improve internal government review processes.

In continuing with her report on her work over the past twelve months, Ms. Drummond summarized the results related to her communications plan for FY 2011. The Office is on track to complete its communications goals as outlined in that plan. She noted an increase in web traffic to the Compliance website. This included a 35% increase in the number of hits to the Compliance Website after Deans, Directors, and Chairs received their annual notification about University policies, which had purposefully included a link to the Compliance Website and the Code of Conduct Brochure. For the first quarter of the calendar year, the website received 2,600 hits, averaging 200 hits per week, which represents a 5% increase from the previous quarter. Additionally, the Chief Compliance and Privacy Officer has been invited to present on compliance communications planning.
at the annual Society of Corporate Compliance and Ethics Officers Higher Education Conference this summer.

The Office of Compliance Services continues to collect data on its consultative work performed. During the Chief Compliance Officer’s first year, over seventy compliance and privacy consultations were performed. This data was segmented into the various categories of compliance issues which was shared with the Committee and the trends illustrated by these consultations were used to help inform the FY 2012 Compliance Work Plan.

At the request of the Board, the Compliance Office performed compliance assessments for the Higher Education Opportunity Act (HEOA) and for a National Collegiate Athletics Association (NCAA) Compliance Report follow-up.

The Compliance Office is responsible for maintaining the University policy website. This year the Office has reorganized and enhanced the utility of the site by adding a number of functionalities for users. In collaboration with General Counsel and the Vice President for Executive Operations the Office is reviewing University policies with the goal of making existing policies more effective in communication of the rights and responsibilities of our community members. This approach is being supported by the University’s Governance Groups, all of which have been consulted as this project moves forward.

Next, Ms. Drummond provided an overview of the Ethics and Compliance Reporting Help Line. Since its inception, approximately 18 months ago, eleven reports have been received, one report was outside the scope for the Compliance Helpline and was referred back to the reporter, ten were referred for review and nine of these are now closed.

Finally, since being appointed as the Chief Privacy Officer, the Office receives reports of data security incidents. In evaluating these incidents, the Office works with Enterprise Technology Services and other University departments to determine whether a data breach has occurred, for legal and regulatory purposes, and then works to ensure that the appropriate University response is taken. Since the inception of the Privacy Office in the Fall of 2010, the Office has responded to over six security incidents. Ms. Drummond noted the interconnected nature of information security and privacy, and discussed how the two groups work closely together.

At the conclusion of the Chief Compliance and Privacy Officer’s presentation, Committee member Carolyn Branagan, thanked Ms. Drummond for her great work. Committee member Bill Botzow addressed the Compliance Help Line and consultative calls and asked how we will measure the right number of calls in respect of either, to know the helpline is working. Ms. Drummond answered by saying, generally, “more is better”. She noted that an increase in consultative calls might suggest that the Help Line might be less used in favor of the former. Both, however, would show that the communications and outreach efforts are effective in having individuals come forward and ask questions related to compliance or make reports. Her experience in other, similar efforts, outside of the University, suggest to her that generally after outreach, calls,
whether or complaint or inquiry, increase. And this is a good thing in her view, because it indicates greater awareness and a willingness to reach out for help.

Chair Young expressed his concerns about working with limited resources and whether this prevented the Office from completing the work it would like to accomplish.

He is also very happy with the work Ms. Drummond has done over the past year. Chair Young particularly noted that he appreciated the process identified by Ms. Drummond for development of her Work Plan for FY 2012.

Also, at Chair Young’s request, Ms. Drummond explained the relationship of Audit Services and Compliance Services and how they work together as distinct, but complementary, functions. Ms. Drummond noted the flow chart explaining this interaction that appears on the Compliance website.

**Chief Internal Auditor Update**

Chief Internal Auditor, William Harrison, provided a brief summary of the audits listed in his written report provided in advance to the Committee. The Office has issued three reports since the last meeting in February. The first report was an investigation of employee misconduct. The second report, done at request of the Executive Vice President for Research Administration, was an internal review of the Vermont Genetics Network cost reallocation operating procedures. We found that their costs were reallocated to the correct accounts at the correct dollar amount. We made several control observations intended to strengthen the reallocation process moving forward. The third report issued was not a compliance review. Instead, the review focused on the Universities transition process from the Federal Family Education Loan Program to the Direct Student Loan Program. A transition check list developed by the U.S. Department of Education in collaboration with the National Association of Student Financial Aid Administrators was used to evaluate transition process. Overall, the audit found that UVM’s transition process was generally consistent with the steps provided in the check list. To ensure consistent administration of the program in the future, it was suggested that management formally document it direct loan operating procedures, and establish both a risk based training program and self-assessment or other process to ensure internal controls are present and operating effectively.

One report, not listed, is a final draft report provided to the UVM Extension Management for their review and comment, which he anticipates receiving by May 4, 2011. Several other reports are in process including the Banner Information Technology audit. This report is currently under reviewed by the Office of Audit Services.

Mr. Harrison has continued his education and outreach work. He presented, for a second time, at a UVM Extension retreat and addressed the Academic Business Offers working group with a summary of internal audit observations over the past year.
Committee member Bill Botzow asked Mr. Harrison if he was aware of any loss of money through phone billing fraud. Vice President Cate responded that the University’s telecommunications system is private and centrally managed and much less likely to be affected by such consumer scams.

Chair Young inquired regarding the ongoing internal audit work and if it was being completed in a timely manner. This carry over is part of the work being done by the Chief Compliance and Privacy Office and Chief Information Office on privacy information. Mr. Harrison responded that he anticipates that the work of Audit Services in this area will continue to be advisory in the foreseeable future. Chair Young also asked for further information concerning the proposed cancelation of the Executive Expense Audit. Mr. Harrison responded that the decision to cancel this audit was made based on the current risk assessment and revised audit priorities.

**Presentation of the FY 2012 Internal Audit Plan**

Mr. Harrison, briefly reviewed the Internal Audit plan for FY 2012. As part of the planning process, he met with 53 constituents across campus, classified risk into eight broad categories (e.g., financial management, sponsored research, information technology, etc.), considered various risk factors in these categories including risks affecting institutions of higher education nationally and prior audit results, ranked risk using a high, medium, or low risk scale, considered available audit resources and staffing levels, and prepared the plan.

Mr. Harrison moved on to review the Office’s available resources and office staffing. A majority of the of the Audit Services budget is dedicated to five auditor positions and a 0.5 office support position shared with the Office of Compliance Services. Out of the five auditor positions, one has been open for most the year and the recruitment process to fill this position is currently underway. The remaining budget is dedicated to the Financial Statement Audit and operating expenses.

The Office of Audit Services is comprised of the Chief Internal Auditor, a Lead Auditor, two Senior Auditors and a third position, currently in the recruitment process. When filled, the position will be responsible for providing internal investigative support and planned audits. The Office will not have an Information Technology (IT) auditor on staff. Instead, the Office will continue to utilize co-sourced auditors to perform this work contingent on the availability of budget resources.

Chairman Young inquired if the Office of Audit Services has the financial resources to have the IT audit work done externally. Mr. Harrison explained that institutions of similar size do not always staff an IT auditor because of the resources necessary to attract and maintain a highly experienced individual in such a position. If the current budget does not allow funds for co-sourced IT audit work, Mr. Harrison will pursue other options.

Trustee Bill Botzow expressed his concerns about not having an IT Auditor in house. There was a general discussion of the current activities in place to mitigate IT risk at the
University including the annual external audit and the selection of a new Information Security Officer. Because of the many different activities, it was acknowledged that communication among the various stakeholders was critical.

Preliminary Report of FY 2012 Office of Audit Services Budget

Due to time constraints, Mr. Harrison asked the committee if there were any questions in regard to the proposed budget. No questions were presented.

Enterprise Risk Management (ERM) Update

ERM Work Group Leader Dale Rocheleau and Vice President for Finance and Administration and University Treasurer Richard Cate provided a review of the work that has been done to date. Senior Strategist, Al Turgeon, and Risk Management Director, Mary Dewey, provided a summary of the elements of the proposed ERM program highlighted in material provide to the Committee in advance as well as a summary of the interviews they conducted with all the Vice Presidents and Deans. The emergent risks identified in the interviews will be shared with the Vice President for Finance and Administration and University Treasurer, the President and the Provost. Collaborative work is also being done with General Counsel, Audit Services and Compliance Services to develop a process to evaluate these risks.

Next, Mr. Turgeon and Ms. Dewey presented an overview of the draft ERM program design. The purpose of the ERM program is to create an institution-wide culture of risk and opportunity awareness by providing a structured, consistent, and continuous process for early and proactive identification and reporting of material risks to senior management and trustees. ERM Work Group Leader, Dale Rocheleau, provided the observation that the program is designed to create a culture of prudent risk assessment. Guiding principles have been drafted to support a risk-aware culture and set expectations for the behavior of University employees and administrators. Ownership and management of risk will be retained within the University departments and units. A risk tolerance statement that defines, in quantifiable terms where possible, the amount and type of risk that the institution is willing to take or retain is under development. The presentation also outlined a drafted annual workflow, summary of roles and responsibilities as well as a plan to communicate and collaborate with General Counsel, the Chief Compliance Officer and Chief Internal Auditor. An update will be presented to the full Board at the May 2011 meeting.

Chair Young questioned what the ERM tolerance statement would look like and Richard Cate responded by saying they had not determined how to present this information or how specific it will be. Other universities they studied did not have a format that could be mimicked and the topic is currently under discussion. Chair Young commented that he looks forward to seeing the outcome and that talking about risk is almost more important than the end product.

Information Security Officer Search Update
Vice President Cate announced the selection of Dean Williams as the new Information Security Officer. Mr. Williams is currently the Director of Client Services at the University and will begin his new position June 1, 2011.

FY 2012 Audit Committee Work Plan

Chair Young commented that he would like to ensure that two agenda items (i) ongoing reports on the Enterprise Risk Management program and (ii) quarterly reports from the Information Security Officer are added as part of the Committee’s FY 2012 work plan.

Other Business

At 9:55 a.m., a motion was made, seconded and approved to go into executive session to discuss pending civil actions, attorney/client privileged information, and the evaluation of public officers. All in attendance were excused from the meeting, with the exception of Trustees, Tanya Morehouse of the State Auditor’s Office, and Chief Compliance Officer Anna Drummond for the first three agenda items. Trustees, Ms. Morehouse, and Chief Internal Auditor Bill Harrison were present for the fourth agenda item.

Adjournment

The meeting was re-opened to the public at 10:53 a.m. There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair