A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Thursday, February 03, 2011 at 3:30 p.m. in the Livak Ballroom, 417-419 Dudley H. Davis Center.

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

OTHER TRUSTEES PRESENT: Board Chair Robert Cioffi and William Ruprecht

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

REPRESENTATIVE ABSENT: None

PERSONS ALSO PARTICIPATING: President Daniel Fogel, Vice President for Finance and Administration and University Treasurer Richard Cate, Chief Internal Auditor William Harrison, Chief Compliance Officer Anna Drummond, University Controller Claire Burlingham, Tom Salmon and Tanya Morehouse of the State Auditor’s Office*, Vice President for Executive Operations Gary Derr, Associate Vice President for Human Resource Services Barbara Johnson and Renee Bourget-Place and Sarah Timmerman of KPMG

*Participated via teleconference call.

Chair Bill Botzow called the meeting to order at 3:35 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the December 15, 2010 meeting.

Chief Internal Auditor Update

Chief Internal Auditor William Harrison provided a brief summary of audits listed in his written report provided in advance to the Committee. The Office of Audit Services continues to make great progress on all of the audits. Mr. Harrison noted changes to the Recharge Centers Audit as it may impact the completion of the audit plan. It was anticipated that this audit would be on one objective through three departments; the Print
and Mail Center, the CATcard Office and Athletic Ticket Sales. However, his Office has determined through their risk assessment process that the focus will be slightly different in each activity and three audit reports will be needed rather than just one. He also noted that time needed to complete three reports may delay the Audit Plan completion. The three reports will be presented separately as each are completed.

**Chief Compliance Officer Update**

Chief Compliance Officer Anna Drummond provided a summary of the Office of Compliance Services work detailed in her written report previously provided to the Committee. She began with an update on the Compliance Work Plan in the area of research compliance. The Office has continued its work with both the Effort Management and Reporting Subcommittee and with the Implementation Team for the new software associated with effort management and reporting.

In the area of privacy, information security and data retention, the Office worked with funds provided by the Office of Audit Services to retain external consultants to help collect an inventory of existing data on campus. The Compliance Work Group, co-chaired by the Chief Compliance and Privacy Officer and the Chief Information Officer, conducted three workshops as part of the inventorying process. Representatives from over 40 different departments participated in these workshops. The workshops provided attendees with a background of privacy regulatory issues, defined key privacy concepts, and provided a framework for identifying and classifying University records containing protected data. Participants were then led through a risk assessment exercise to identify and prioritize their most sensitive records. This exercise included identifying what data exists, where and how this data resides in their department, who is responsible for safeguarding it, and how it is accessed. The Office of Privacy Services has also worked with General Council on a Data Breach Notification Policy and will move forward with implementing a more defined process to work through privacy incidents on campus.

In the third area of the Compliance Workplan, laboratory safety, the Chief Compliance Officer has formed another Work Group with the Director of Risk Management and the Chief of Staff of the Office of the Vice President for Research. At their first meeting on January 26th, they looked at a plan for moving forward to create greater compliance on campus in respect to lab safety issues. Ms. Drummond has begun assessing general compliance in the area of laboratory safety and in doing so has conducted numerous in-depth interviews with faculty, staff and the administration, has toured laboratory facilities on campus multiple times, and has reviewed various documents pertaining to laboratory safety, including existing policies, training and tracking, self-assessment and inventory systems, capacity, ventilation, oversight and adverse incident reports.

The Office continues to provide outreach services to the University community. Since the December meeting, the Chief Compliance Officer has spoken to the Academic Council on Undergraduate Affairs, given the welcome and introduction to the attendees of the Privacy, Information and Data Retention Work Shops and attended a monthly staff meeting with the Environmental Safety Office. Ms. Drummond is also scheduled to speak
at the Financial Operations Manual training sessions and present that next Staff Council meeting.

Ms. Drummond moved on to discuss the Compliance Office communications plan. Posters promoting the Code of Business Conduct and the Ethics and Compliance Reporting and Helpline have been distributed across campus. Through the Staff Council’s monthly newsletter, Staffline, 3500 permanent and temporary employees received an announcement that provides information on how to request copies of the brochure and poster, and directs readers to the online version of the brochure. Additionally, through an annual communication, all Deans, Directors, and Chairs were reminded of important University policies and their responsibility in communicating these policies to their employees. This year, the communication also provided a link to the Office of Compliance Services website and the electronic flip brochure on the Code of Business Conduct on the Ethics and Compliance Reporting and Helpline.

The Office of Compliance Services has collected data on the work performed for the University from December 1st, 2010 through January 15th, 2011. This data can be found in the report provided to the Committee.

Next, Ms. Drummond provided an update on the Ethics and Compliance Reporting Help Line. Nine reports have been received and seven have been closed. Of the reports filed, four have been referred for investigation, four have been referred to management, and one was an issue outside of the scope of the Compliance Help Line and was, therefore, referred back to the reporter. Of the six resolved reports, three resulted in corrective action and three were found to contain unsubstantiated allegations.

The Office is also reviewing, with the help of General Counsel and the Vice President of Executive Operations, the University’s policies and assessing ways that policies can be more effective and useful to the community. Trustee Mark Young quoted from Ms. Drummond’s report “Arguably, having too many policies or having policies that are hard to find, difficult to understand and impossible to follow, is as bad as not having policies, at all.” and commented that this should be the quote of the day.

Ms. Drummond summarized the compliance assessment of the University Athletics Department’s corrective action in response to the 2009 National Collegiate Athletic Association (NCAA) American East Conference (AEC) Compliance Report (the Report). The assessment compared the Report recommendations with the corrective action implemented by the Athletics Department and includes such matters as rules education, recruitment, eligibility, and financial aid. Prior to this assessment, the Athletics Compliance Office had already completed most of the necessary corrective action included in the Report. The Compliance Office provided detailed analysis to highlight additionally recommended compliance efforts. The Athletics Department, in response to the recommendations, amended their Compliance Manual and certain forms in order to better document internal controls, and has amended certain other of their corrective actions. Ms. Drummond was able to report full compliance with the 2009 Report and
commended the activities of the Athletics Department for their responsiveness to the Report and to the Compliance Office.

At the conclusion of the Chief Internal Auditor and Chief Compliance Officer presentations, Chair Botzow encouraged both Ms. Drummond and Mr. Harrison to keep up their good work. He asked them to reflect on the work they had completed over the past year and report back to the Committee on what worked and what did not.

**National Collegiate Athletic Association Agreed-Upon Procedures (NCAA AUP) Report and Management Responses**

KPMG noted that NCAA regulations contain specific minimum agreed upon procedures for revenues, expenses, and internal controls. The final report is addressed to the UVM President and is not filed with the NCAA. In the report, KPMG noted no significant issues or adjustments. Trustee Mark Young questioned the basis of the materiality thresholds identified in the report. It was noted that management determines the materiality threshold, currently at $100,000, and sample sizes. Both KPMG and Controller Claire Burlingham reported that the materiality threshold was appropriate and consistent with those used by other institutions as well as being consistent with NCAA guidelines.

**KPMG’s Presentation of the FY 2010 Circular A-133 Audit Report and the**

Renee Bourget-Place, of KPMG, reported the total federal expenditures for FY 2010 were $231,350,822. Major federal programs were:

- Student Financial Aid Cluster - $111,267,879
- Research and Development Cluster - $94,946,502

For the financial statement, the University received an unqualified opinion. For 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 no material weaknesses or significant deficiencies. Certain requirements performed by our Loan Servicers were not audited by KPMG because they were audited by the third party servicer auditor. There were two findings in the Research and Development Cluster, which are required to be reported in accordance with OMB Circular A-133. The two findings included in this report were; an unallowable expenditure for a first class airline ticket and failure to ensure that a subrecipient receiving ARRA funds was properly registered on the Central Contractor Registration website.

Trustee Young questioned if the University would need to provide additional resources as a result of the changeover to Direct Lending. Vice President Cate confirmed additional staff and University resources will be need to help administer this new loan program.
KPMG Presentation of the FY 2011 External Audit Plan

KPMG outlined the plan for the FY 2011 annual audit of the financial statements and compliance audits and provided an overview of the engagement team, audit methodology, audit objective and responsibilities. KPMG also noted its initial assessment of significant accounts and disclosures, the audit timeline and deliverables. KPMG identified one major program to be tested in the OMB Circular A-133 audit, noting that additional programs may need to be audited in 2011 if Federal stimulus funds are received. The plan is very similar to one used in 2010 and KPMG will keep the Committee apprised of any changes.

Chair Bill Botzow asked if the audit results meant the University may be classified as a low risk auditee in the future. Renee Bourget-Place confirmed this was likely.

Discussion continued on the Audit Plan and Ms. Bourget-Place noted the positive efforts made by the Compliance Office in communicating the Ethics and Compliance Reporting and Helpline and the Code of Conduct.

The following resolution was presented for approval:

Resolution Authorizing Retention of External Audit Firm for FY 2010

RESOLVED, that the Committee authorizes and directs the Committee Chair to retain KPMG LLP, Certified Public Accountants, to conduct the mandatory financial attestation and compliance audits for the fiscal year ending June 30, 2011 in accordance with the fee schedule set forth in KPMG’s proposal for services dated December 23, 2008. The annual audits shall be conducted in compliance with the requirements of the University Bylaws and state and federal law.

A motion was made, seconded and unanimously voted to approve the resolution for recommendation to the full Board.

External Risk Management (ERM) Update

Vice President for Finance and Administration and University Treasurer Richard Cate provided an overview of the work that has been done to date. His Executive Assistant and Senior Strategist, Al Turgeon, has completed a significant amount of work since the final report was from external consultants Arthur J. Gallagher Rick Management Services, Inc. Mr. Turgeon has looked at best practices, created a proposed process and commenced a series of interviews starting with Deans and Vice Presidents. Management is continuing to have internal discussions on the ultimate design of the ERM program and will provide a complete update at the April Audit Committee meeting. Vice President Cate thanked ERM Work Group Leader Dale Rocheleau for his work putting together his matrix comprised of data from the Gallagher study and Emory University. Chair Botzow commented on the importance of getting the governance structure right so that the
University community understands how seriously enterprise risk management is being taken, why it is a good idea and how it sets our brand in compliance.

**PricewaterhouseCoopers (PwC) Internal Control Report – Update on Status of Corrective Action Plan**

Vice President Cate began by providing the Committee with a history of the PwC Internal Control report. In 2008, Deloitte and Touche reviewed internal controls and provided a series of recommendations. PwC performed a follow-up review of the University’s progress. University Controller Claire Burlingham provided a summary of the recommendations in PwC’s report that was issued in October 2009. Overall, the report was positive and five specific areas were addressed; internal audit, budget, governance, procurement and information technology. To satisfy the internal audit area, Bill Harrison was hired as the Chief Internal Auditor. In terms of the budget, quarterly certification has been incorporated and fully implemented University wide as well as forecasting expenses to the end of the fiscal year. Two governance issues were addressed. 1) Management has completed the Operations Manual which is available to the University community through the Division of Finance and Enterprise Services website; and 2) The first administrative business service center has been created, staffed and will begin their daily activities March 1st.

Ms. Burlingham commented that Procurement Services has implemented several corrective actions. The Single Source Justification form has been revised and as a result of this change there has been an increase in RFP’s and RFQ’s being done throughout the University. In July 2010, a Contract Specialist position was filled and the contract workflow process within PeopleSoft has been automated. The Office has also implemented a new Contract Routing form to make sure all contracts are in accordance with the new Contract Signatory Policy. However, work is still underway to automate this procedure. The PeopleSoft vendor file, with over 18,000 vendors, was seen as an area of risk and as a result a process to archive vendors after 16 to 18 months of inactivity has been put in place. Additionally, vendor tracking in PeopleSoft has been turned on to track changes. Finally, the Check Request form for manual checks has been updated and is in compliance with the University’s signatory requirements. Controls have been put in place so that checks go through the same approvals as purchase requisitions. Significant work has also taken place in the area of information technology. A footprint process, archiving and documenting changes, is in place as well as a semiannual review of system owners. Overall, Ms. Burlingham believes the University has made good progress and is moving in the right direction. The PwC report will continue to be a live document.

**Conflicts of Interest and Temporary Employee Internal Audits – Management Corrective Plan Update**

Chief Internal Auditor William Harrison began by explaining that internal audit generally follows up with management on the status of its proposed corrective actions approximately six months after a final report is issued. He then provided a summary of each audit, which had been originally reported to the Committee at their August 2010
meeting. Associate Vice President for Human Resource Services Barbara Johnson provided an update on the status of their corrective actions in respect to temporary employees. Her department welcomed the audit findings in this area as it was already an area of concern. In response, a work group was formed which looked at fifteen comparative institutions of higher education. As a result of their finding, the work group has drafted a policy and revised the Temporary Hiring form. The work group is also interviewing end users and its next step is to meet with the Compliance Office to identify appropriate control points. Finally, they are working closely with University administration on identifying the department level of accountability versus centralization.

Vice President for Executive Operations and Chief of Staff Gary Derr discussed the conflicts of interest findings and noted continuing work to identify all Officers of the Administration. Work is being done to revise wording in the Conflict of Interest Policy so that the Policy clearly identifies who should be completing the Conflict of Interest form.

Information Security Officer Search Update

Vice President Cate reported that this search is ongoing.

Financial Operations Manual

University Controller Claire Burlingham started by thanking Tara Messier from Learning Services for her work on the training strategy for the Financial Operations Manual. The Manual has been completed with the Business Service Center, Grant and Contract Accounting, Enterprise Risk Management sections under development. Online and classroom training will begin next week. Ms. Burlingham concluded by providing a brief overview of the online version of the Manual submitted to the Committee and available through the Division of Finance and Enterprise Services website.

Other Business

At 4:55 p.m., a motion was made, seconded and approved to go into executive session to discuss public officers and civil actions. All in attendance were excused from the meeting, with the exception of Trustees, Vice President Cate. Trustee Dale Rocheleau was not in attendance as he left the meeting at 4:50 p.m. In addition, Chief Internal Auditor Bill Harrison and Chief Compliance Officer Anna Drummond were invited to attend the second executive session item.

Adjournment

There being no further business, the meeting was adjourned at 5:32 p.m.

Respectfully submitted,

Bill Botzow, Chair