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, November 14, 2011 at 10:00 a.m. in room 427A Waterman Building.

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

MEMBERS ABSENT: Carolyn Branagan and Brian Sozansky

OTHER TRUSTEES PRESENT: None

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy, Staff Representative Marie Tiemann, Alumni Representative Bill Cimonetti** and Graduate Student Representative Cornell Woodson

REPRESENTATIVE ABSENT: Student Representative Chris Juaire

PERSONS ALSO PARTICIPATING: Vice President for Finance and Administration Richard Cate***, Chief Internal Auditor William Harrison, Chief Compliance and Privacy Officer Anna Drummond, Information Security Officer Dean Williams, University Controller Claire Burlingham, Senior Strategist for Enterprise Risk Management Al Turgeon, Director of Risk Management Mary Dewey, Renee Bourget-Place and Sarah Timmerman of KPMG and Tanya Morehouse of the State Auditor’s Office

* Participated via teleconference call
** Arrived at 11:00 a.m.
*** Participated from 10:45 a.m. - 11:00 a.m.

Chair Mark Young called the meeting to order at 10:00 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the September 12, 2011, meeting minutes with the correction of a few minor typing errors.

Chief Internal Auditor Update

Chief Internal Auditor William Harrison began by referring to his status report provided in advance to the Committee. Since the September meeting, the Office of Audit Services (OAS) has issued one report related to an Ethics and Compliance Reporting and Help
Line referral. In addition, Mr. Harrison noted two audits in the early planning stages: (i.) Gift Expenses and (ii.) Presidential Search Committee Expenses.

The Office continues its education and outreach activities. In October, Mr. Harrison presented a Human Resource Services Supervisory Learning Series workshop on fraud and internal controls.

Mr. Harrison moved on to review the summary of hours worked detailed in his status report. He noted the 488 hours of lost staff time due to the resignation of a senior auditor in September. A new senior auditor will begin work December 5, 2011. He reviewed planned hours, unplanned hours, and other hours noting other hours included vacation time taken over the summer. Mr. Harrison indicated that the senior auditor’s departure was due to relocation.

Mr. Harrison explained that according to the International Standards for the Professional Practice of Internal Auditing, the Office of Audit Services is required to “establish and maintain a system to monitor the disposition of results communicated to management … and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.” Mr. Harrison reported on follow up work with management in respect to their corrective actions.

Responding to Vice Chair Rocheleau’s comments, Mr. Harrison reported he planned to provide a follow-up report on the status of the Vermont Genetics Network report recommendations at the February Audit Committee meeting.

Finally, Mr. Harrison concluded his presentation with an update on the Office of Audit Services’ Audit Quality Survey. Since the start of the post-audit survey process in August 2011, OAS invited 13 University employees to complete the survey. To date, 10 of the 13 (77%) have responded. The responses represent a 6.39 overall satisfaction rating.

Chair Mark Young and Trustee Bill Botzow inquired into the recruitment process and candidate pool for the new senior auditor. Mr. Harrison reported that for the past two recruitment actions, there have been a relatively small number of applications for senior auditor positions. For example, there were 14 applicants for the most recent position. Although, the applicant pool was small the candidate hired is exceptional with 28 years of experience in accounting, audit, and investigations. Ms. Bourget-Place noted the low number of applicants is consistent with her recent experience in public accounting.

**Chief Compliance and Privacy Officer Update**

Chief Compliance and Privacy Officer Anna Drummond began with an update on the FY 12 Compliance Work Plan and work done on two multi-year efforts: (i) privacy, information security, and data retention, and (ii) laboratory safety and environmental practices.

In the area of privacy, information security and data retention, Ms. Drummond reported
Interim President John Bramley had signed the interim Privacy Policy. The final version of the policy reflected comments from members of the Audit Committee, the Faculty Senate and Staff Council. Additionally, the Office continues its work in regard to the Health Insurance Portability and Accountability Act (HIPAA). Specifically, work is being done to clarify responsibility and accountability so that a collaborative system for assurances can be created. The Office is working with the Office of General Counsel on obtaining further legal opinions and continuing to meet with the impacted departments in order to follow up with them in terms of practical applications.

In the area of laboratory safety, Ms. Drummond provided a summary of the Office’s work following the release of its assessment of the Cook Physical Sciences Building. Since the September Audit Committee meeting, the University has implemented the Laboratory Safety Policy drafted by the Work Group on Laboratory Safety co-chaired by Ms. Drummond, the Chief Compliance Officer (CCO), Mary Dewey, Director of Risk Management and Dan Harvey, Chief of Staff to the Vice President for Research and Assistant Dean of the Graduate College. The new Policy provides a greater focus on responsibility, accountability, and oversight. A communication from Vice President for Finance and Administration Richard Cate was distributed to the University highlighting the new policy. Associated procedures for laboratory safety oversight have also been drafted by the Work Group and the CCO reported that she understands that the responsible officials are moving forward with such procedures. Ms. Drummond was also happy to report a Request for Proposals (RFP) for renovations to the Cook Physical Sciences Building has been issued. She will continue to provide updates on the progress of her recommendations.

Trustee Bill Botzow asked Ms. Drummond to clarify the date for follow up. Ms. Drummond explained that she would be following up on a regular basis with the responsible parties and would, pursuant to the Committee’s previous request, be reporting on progress to the committee at each meeting until such time as all the recommendations in the assessment are addressed.

Trustee Botzow inquired who is responsible for the evaluation of the laboratories on campus. Mary Dewey explained that Risk Management is responsible for these audits. Risk Management has three auditors to perform the inspections of 500 labs across campus. Ms. Dewey also confirmed that the lab safety issues have very little impact on insurance premiums. The main goal of these inspections is health and safety.

Responding to a question from Chair Young, Ms. Drummond clarified that while many of her recommendations related to structural issues, others were behavioral or procedural.

Mary Dewey agreed with Vice Chair Rocheleau that inspecting the 500 labs on campus is a huge undertaking. Additionally, she confirmed that safety audits are combined with the environmental compliance audits. Ms. Drummond also noted people working in labs are able to perform self-assessments which are then reviewed by Risk Management.

Trustee Botzow questioned if laboratory safety was part of acquiring grant funding for
the University. Ms. Drummond confirmed, at this time, it is not; however, there has discussion regarding adding language requiring compliance with Chemical Safety Board (CSB) standards to Federal grant agreements. Ms. Drummond also noted that the Compliance Office has added a CSB produced video on laboratory safety in higher education to the Compliance Office website.

After the discussion on laboratory safety, Ms. Drummond moved on to discuss other work on the FY 12 work plan. Ms. Drummond plans to provide an extensive report on the Program Integrity Rules at the February meeting. She noted that she had met recently with the Council of Deans to present on the Program Integrity topics that directly affect their units. In the area of sexual harassment, the Compliance Office has delivered its Title IX Dear Colleague Letter (DCL) Guidance compliance matrix to the Provost’s Office, Dean of Students’ Office, the Chief Diversity Officer, General Counsel’s Office, and the AA/EO Office. The Compliance Matrix details the expectations set forth in the DCL and assesses University policy and practices against these expectations. The Office will be working closely with the appropriate University personnel in respect to these issues and will provide a more fulsome report to the Committee at a future date.

Ms. Drummond continued on to discuss conflict of interest and the Department of Health and Human Services (HHS) published final rules for conflicts of interest in research. Important changes to these rules include lowering the threshold for disclosures from $10,000 to $5,000, increased disclosure and reporting requirements, mandatory training, and the requirement to make certain conflict of interest information accessible to the public. The Office has completed a compliance matrix for the conflict of interest rules and is coordinating with the Sponsored Project Administration Office on a compliance plan and timeline to meet the new requirements. Compliance with the new rules is required by August 24th, 2012.

Next, Ms. Drummond provided a summary of the Office’s work on Audit Services Report #11-001, “Compliance with Certain Provisions of FLSA”. Enhancements that will better ensure consistent compliance with the requirement that certain employees enter time worked each day, as well as requiring consistent documented supervisory approval each pay period have been developed. Implementation is on-track to roll out with the first payroll in January. In direct response to a clarification question, Claire Burlingham reported that communications and education in respect of this issue is being rolled out after the Thanksgiving break. Ms. Drummond noted that would give the University one month within which to transition to the new practices. Ms. Drummond further noted that these new efforts will address the compliance issues covered in the audit report but there is a longer-term plan to look at these issues more globally being undertaken by management.

Ms. Drummond continued on to discuss developments in the area of Conflicts of Interest and Conflicts of Commitments. The Vice President for Executive Operations (VPEO) Gary Derr has completed a transition to an on-line survey tool that collects conflict disclosures for Officers of the Administration. The new tool appears to be more effective, resulting in management completing the disclosure forms in a shorter amount of time.
The on-line tool also required participants to read and click through each section before moving on, adding better compliance to the survey. The VPEO is in the process of identifying conflicts, determining if a good management plan is in place and discussing the plans with supervisors. When this process is complete, the information will reside on a shared site with Ms. Drummond and Mr. Harrison. The Chief Compliance Officer has reviewed all the current disclosures and requested the VPEO to look into a few matters further and will follow up to make sure all management plans are in place. Another significant change in this area is that the VPEO will extend the conflicts reporting requirement to additional personnel, not otherwise categorized as Officers of the Administration. The additional personnel will include Associate/Assistant Deans, Directors and Chairs and will bring the total number of those individuals reporting on conflicts to approximately 251.

Ms. Drummond moved on to review the compliance awareness survey emailed to 3,688 permanent University employees October 3rd, 2011. The survey achieved a high response rate, averaging just over 45%, with 1,537 (45%) non-management responses and 134 (52%) management responses. The purpose of the compliance survey was to measure the change in awareness of the Compliance Office and its core programs since the original survey in 2010, as well as promote awareness of the Compliance Office, Code of Business Conduct and the Ethics and Compliance Reporting and Help Line. Ms. Drummond was pleased to report that the combined survey results have demonstrated improved awareness in all measures.

Ms. Drummond highlighted some of the themes identified in the comments provided by survey participants.

Vice Chair Rocheleau and Trustee Botzow asked a number of clarifying questions about the data and expressed concerns about the lack of strong confidence in protection of whistleblowers despite University policy. Ms. Drummond reminded the Committee that creating a “culture of compliance” involved social behavioral change and takes several years to create. The diverse culture in higher education may require even longer. Vice Chair Rocheleau thanked Ms. Drummond for her work on this project and noted the survey data was helpful. Ms. Drummond noted that she will be presenting the survey results to the President’s Senior Leadership group.

Ms. Drummond moved on to discuss exit interviews. The Office has begun to interview departing employees who have held positions with significant compliance responsibilities. To date, three such interviews have been conducted. Ms. Drummond clarified for Vice Chair Rocheleau that although there is no formal University process for exit interviews, when they occur, some departments conduct exit interviews. Ms. Drummond’s aim is to determine if the departing employee is leaving because of compliance issues as well as any significant compliance concerns the departing employee may have. Vice Chair Rocheleau commended this practice.

The Office of Compliance Services continues to provide compliance and privacy consultations upon request or in response to new regulatory requirements. The Office has
performed fourteen distinct compliance and privacy consultations for the period August 25th through October 24th, 2011, bringing the cumulative total to over 114 consultations.

Next, Ms. Drummond provided an update on the Ethics and Compliance Reporting Help Line. Three reports have been received since the last report to the Audit Committee. There have been a total of sixteen reports made to date, thirteen of which have been closed. The three outstanding reports have been referred to Audit Services. Two reports have been closed since the September Audit Committee meeting.

Since the September 2011 Audit Committee meeting, the Office of Privacy Services has responded to four privacy incidents. The Data Breach Notification Policy covering breaches, as well as privacy incidents that do not rise to the level of a breach, was followed in all cases.

Finally, in the area of training the Office has created a Compliance Education Workgroup. The group has compiled a list of all the compliance training that occurs on campus, the department responsible for providing the training, how training is given and how it is being tracked. The workgroups goal is to identify gaps in training, assess training and tracking, and propose and assist with remediation of any deficiencies.

Discussion followed on the topic of embedding compliance performance within the performance evaluation process as well as the role of supervisors in assessing and providing employees’ compliance awareness and training.

**Information Security Officer Update**

Chief Information Security Officer Dean Williams provided a summary of his Office’s work since the last Committee meeting. Mr. Williams was pleased to report the interim Information Security Policy and Procedures have been signed by Interim President John Bramley. Comments on the policy included small inconsistencies and questions as to how to complete certain items. Mr. Williams is encouraged that people are taking action to work more securely and are asking for help when working with sensitive data. Mr. Williams is happy to report people are reaching out to him to provide education across campus.

Mr. Williams moved on to discuss his team’s work helping merchants comply with Payment Card Industry Data Security Standard (PCI DSS) requirements. Controller Claire Burlingham and Chief Information Officer David Todd have formed a Payment Card Security Steering Committee tasked to advise Vice President Cate on policies, resources and operating costs. The Information Security team is working to determine the total cost to meet compliance standards for all merchants. Also in this area, Mr. Williams’s team helped the University Book Store move payment processing equipment onto a PCI DSS compliant network and implemented compliant ways to support transactions both on and off campus. Work is currently being done to assist the CATCard Office to implement recommendations from the Office of Audit Services CATCard audit.
Lastly, his team is part of a group helping Conference and Event Services implement a new event management system.

Education is an area Mr. Williams would like to spend more time on. His team invited information technology staff to an online presentation covering cyber security as a shared responsibility. Additionally, Mr. Williams is planning to bring a speaker on campus in February to discuss social networking. He believes this is a way to raise awareness about online content and privacy risks.

Mr. Williams’s team participated in the Enterprise Technology Services efforts to help Vermont State employees displaced by Tropical Storm Irene providing secure network connections and temporary UVM credentials.

Next, Mr. Williams briefly reviewed unexpected work that is done on an ongoing basis. For example, support has been provided to a number of University offices including Audit Services, Compliance and Privacy Services, UVM Extension, the President’s Office, and Procurement Services as well as individual students, faculty and staff. Finally, assistance has been provided to UVM Police Services in their investigation of about a dozen stolen student computers.

In conclusion, Mr. Williams updated the Committee on the status of the Information Security Engineer position. A position description has been drafted and recruitment will begin as soon as possible.

Chair Young commented on the great collaborative work between the Information Security Officer, the Chief Compliance and Privacy Officer, and the Chief Internal Auditor.

**Presentation of the FY 2011 Financial Report and Management Letter Findings**

In regards to the presentation of the FY 2011 Financial Report, Renee Bourget-Place, of KPMG, indicated she was not going through the financial statements in detail. 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 2011 financial statements are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles. The last was to provide the Board additional information regarding the audit and the University’s accounting and financial reporting processes 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.

Ms. Bourget-Place moved on to the areas of significant risk. She noted that there were no significant changes to the original audit plan. She turned the presentation over to Sara Timmerman, KPMG Senior Manager. Ms. Timmerman discussed areas of risk including: revenues, investments, contributions/split interest agreements, expenses (including capital and debt), personnel costs, as well as other areas. Ms. Timmerman added that they used an actuary to approve the reasonableness of assumptions.

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. Several of the recommendations were a follow up to last year’s recommendations. The first observation concerned employee benefit reconciliations. KPMG recommended implementing formal reconciliation processes over employee benefit plan expenses including health, dental and life. Controller Claire Burlingham indicated that a formal reconciliation process was completed and a regular process will be implemented for FY2012.

The remaining observations concerned Information Technology (IT). The first observation discussed was password management. The next observation concerned management’s process for reviewing network access to the PeopleSoft financials application. The third IT observation addressed the need for policies and procedures that describe the requirements for making changes to information systems. Finally, KPMG made several observations related to their review of the University’s Banner system.

Trustee Botzow commented that he found the Management Letter very helpful and did not want the recommendations to be lost. Chair Young suggested tracking management’s progress in resolving the issues identified by KPMG.

To conclude her presentation, Ms. Bourget-Place referred to a list of college and university audit committee focus areas, noting that the Committee currently addresses many of these areas. In response to Trustee Botzow’s question about anything from the list that the Committee has not focused on, Ms. Bourget-Place identified international activities. Ms. Drummond noted that this area is part of the Compliance work plan previously approved by the Committee.

Chair Young requested that the CCO provide reports on compliance matters as they related to internationalization at future meetings.

Vice Chair Rocheleau suggested that a presentation of the details of Moody’s upgrade of the University’s financial outlook to “stable” would be helpful to the Audit Committee in their assessment of risk.
Recommendation of the FY 2011 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 2011 Audited Financial Statements**

WHEREAS, the books and accounts of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2011, 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 2011 Audited Financial Statements.

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

Chair Young requested purchasing card follow-up be added to the Audit Committee Work Plan.

**Enterprise Risk Management (ERM) Update**

In Vice President for Finance and Administration Richard Cate’s absence, Al Turgeon, Senior Strategist for Enterprise Risk Management, provided an update on Enterprise Risk Management (ERM). Mr. Turgeon began with a summary of the ERM work being completed at the University. Additional elements of the draft ERM program were presented to the Risk Assurance Group, which suggested that the risk philosophy statement and the use of the impact and likelihood scales provide an adequate means to define risk tolerance within the University. Additionally, the Group recommended not to use a University risk tolerance statement. Mr. Turgeon noted the challenge, culturally, of having a risk tolerance statement. Ms. Drummond noted that other institutions are practicing ERM without having adopted a risk tolerance statement. Vice Chair Rocheleau stated that he was not surprised to hear that formalizing risk tolerance statement for the institution was going to be difficult.

An inventory of risks and opportunities identified through interviews with the Deans and Vice Presidents is substantially complete. The inventory has about 140 risks and opportunities identified across a number of risk categories including financial, operational, strategic, health/safety/legal liability, human capital, and compliance. A few more interviews have been scheduled in early December to complete this process.

Mr. Turgeon noted that a draft guide on how to conduct a risk assessment has been developed and is now being tested.
Next, Mr. Turgeon reported that the ERM program has begun to do outreach work. A risk assessment workshop was completed for the UVM Foundation’s President and senior staff. At the Provost’s request, a risk assessment of the International Enrollment options currently under consideration was completed. The Chief Diversity Officer has also asked the ERM staff to provide a workshop for her team which has tentatively been scheduled in early February 2012. These outreach activities have helped the ERM staff refine its draft procedures.

At the conclusion of Mr. Turgeon’s presentation, he noted that all the academic representatives have been named to the ERM advisory committee and the structure for advancing ERM further is now in place.

Vice Chair Rocheleau asked Mr. Turgeon to explain the risk scale being used. Mr. Turgeon said there are draft risk and opportunity scales and that the scales rate risks and opportunities on their impact on a scale of 1-6, and on likelihood on a scale of 1-3. Impact is multiplied by likelihood to produce an overall score for each risk and opportunity that can then be plotted on a risk-opportunity heat map.

Discussion followed on the topic of risk tolerance. Trustee Bill Botzow asked that the Audit Committee be provided further explanation as to why there isn’t stronger support for a formal risk tolerance statement for the University. Mr. Turgeon said that the ERM staff would also consult with the President’s Advisory Committee on Enterprise Risk Management and ultimately would come back and inform the Audit Committee of senior management’s thinking.

After this discussion, Mr. Harrison provided a brief overview on the process for the review of executive expenses.

**Annual Review of Audit Committee Charter**

Mr. Harrison provided a summary of the proposed changes to the Audit Committee Charter.

There being no questions, the following resolution was presented for approval:

**Resolution Approving Audit Committee Charter Revisions**

WHEREAS, the Audit Committee has decided to take responsibility for periodically reviewing expense reimbursements, or summaries thereof, that have been submitted by the President and reviewed and certified by the Vice President for Finance and Administration; and

WHEREAS, the Audit Committee has also decided to ensure that its Guidelines are consistent with the Board’s reserved rights and delegated authority and the Committee’s principal responsibilities;
BE IT RESOLVED, that the Audit Committee hereby approves the attached revisions to the Audit Committee Charter and Audit Committee Guidelines for recommendation to the Board.

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

Other Business

At 12:03 p.m., Chair Mark Young excused all in attendance from the meeting, with the exception of Trustees, Tanya Morehouse of the State Auditor’s Office, and Renee Bourget-Place and Sara Timmerman of KPMG for a private session with the external audit firm. Trustees, Ms. Morehouse, Chief Internal Auditor William Harrison, and Chief Compliance Officer Anna Drummond were present for the second item. Ms. Drummond provided an update on government reviews.

Adjournment

The meeting was re-opened to the public at 12:32 p.m. There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

BOARD OF TRUSTEES

AUDIT COMMITTEE

Charter

This Charter sets forth the responsibilities of the University Board of Trustees Audit Committee.

I. Principal Responsibilities

The principal responsibilities of the Committee shall include:

a. promoting the development and monitoring the effectiveness of an institutional system of risk assessment and internal controls;

b. reviewing and, as appropriate, making recommendations to the Board, regarding institutional policies relevant to the scope of Committee responsibilities, including conflict of interest, ethical and fraudulent conduct, whistleblower protection, and documents retention;

c. ensuring that audit plans encompass significant and material aspects of University operations;

d. full authority and oversight of the internal audit function including appointment decisions, performance evaluations, and employment termination of the chief internal auditor;

e. implementing a selection process to retain the independent auditor and making a recommendation to the Board of Trustees for approval. Recommending such additional audits as the Committee and/or the Board must approve under the Board’s reserved authority;

f. maintaining direct and effective communication with independent auditors on behalf of the Board;

g. reviewing the results of internal and external audits (including the annually audited financial statements), and assessing the quality and timeliness of management’s response and corrective actions;

h. reviewing the effectiveness of the University’s practices related to monitoring its compliance with laws and regulations;

i. reviewing the results of management’s investigation and resolution of any reported, or otherwise discovered, significant instances of noncompliance;
j. evaluating the scope and quality of internal and independent audit services, and the degree of coordination and appropriate degree of independence between them; and

k. reporting regularly and promptly to the Board regarding matters within the scope of the Committee charge.

l. periodically reviewing expense reimbursements, or summaries thereof, that have been submitted by the President and reviewed and certified by the Vice President for Finance and Administration.

II. Membership

The University of Vermont Board of Trustees shall annually appoint at least 7 of its members to the Committee. Its members shall be independent of management and the University including its component units and affiliated organizations. For the purposes of this charter, “independence” is defined as rendering a Trustee ineligible for Committee service if he or she (1) is employed by the University; (2) is a partner or employee of a firm retained to conduct an audit of the University; (3) held such University employment or audit engagement at any time during the previous three years; or (4) is receiving consulting, advisory, or other compensatory fees for services provided to the University. Members of the Investment Subcommittee are eligible for appointment to the Audit Committee, but no such member may serve as its Chair or Vice Chair. The University President is ineligible for service as a member, ex officio or otherwise, of the Audit Committee, as a University official and employee.

Committee members shall otherwise be subject to the Conflicts of Interest Policy in the conduct of their work.

Members of the Committee shall receive orientation appropriate to their Committee membership. They will have the goal of understanding general accounting, business and finance principles, including the ability to read and understand institutional financial statements. If possible, at least one member of the Committee will possess accounting or financial expertise.

III. Authority

The Committee is authorized to investigate any matter within the scope of its Charter, with full and direct access to all pertinent University records, personnel, independent auditors and consultants.

IV. Adoption of Charter

This Charter shall be effective as of the date of its approval by the Board. The Committee will annually review the Charter and recommend to the Board revisions thereto, in view of evolving accounting standards, legal developments and experience gained.
Audit Committee Guidelines

These Guidelines serve as an operational supplement to the Audit Committee Charter. They are intended to reflect generally accepted accounting industry standards and practices applicable to non-profit corporations and higher education institutions.

The Guidelines shall be reviewed annually by management, and management shall report annually to the Committee regarding the status of the Guidelines. The Committee shall make revisions to the Guidelines as necessary or appropriate in view of evolving accounting standards and practices, legal developments and experience gained.

I. Retention of the Independent Audit Firm

a. The Committee shall annually authorize and direct the Committee Chair to select and retain an independent audit firm to conduct the mandatory annual audit of the financial statements and/or compliance audits. In conjunction with such selection, the Committee will assess the independence and objectivity of the firm by obtaining statements from the firm on relationships between the firm and the University. The Committee will review and assess any relationships disclosed that may impact auditor objectivity and independence.

b. The Committee shall solicit requests for proposals relative to the mandatory annual audit of the financial statements and/or compliance audits from qualified independent audit firms no less than once every five years.

c. In the event that an independent audit firm is retained to conduct the mandatory annual audit of the financial statements and/or compliance audit for seven or more consecutive years, the Committee shall, as a condition of retention of the firm, require rotation of the lead audit partner on the University engagement.

II. Retention of Other Audit Services

a. The independent audit firm retained to conduct the mandatory annual audit of the financial statements and/or compliance audits generally shall not be eligible for University engagements to perform non-audit services that would violate the U.S. Government Accountability Office Independence Standard, including bookkeeping; financial information systems design, implementation or operation; appraisal or valuation services, fairness opinions or contribution-in-kind reports; internal audit outsourcing services; management functions or human resources; broker or dealer, investment advisor, or investment banking services; legal services and expert services unrelated to the audit; or preparation of the indirect cost proposal or cost allocation plan. If, due to extenuating circumstances, and in the exercise of its reasonable discretion, management deems it to be in the best interests of the University to retain the independent audit firm for non-audit services, the proposed retention is subject to review and action by the Committee where the retention will result in fees of $10,000 or more.
b. Contracts for non-audit services with independent audit firms not already retained by the University to conduct the mandatory annual audit of the financial statements and/or compliance audits are subject to review and recommendation by the Committee and subsequent Board consideration and action when such retentions will result in fees of $250,000 or more.

III. Oversight of Audits

The Committee will, no less than once annually, and otherwise periodically as necessary or desirable:

a. review annual audit plans developed by the Office of Audit Services, and receive regular progress reports relative to such plans;

b. review and approve audit plans developed in consultation with independent audit firms, including (i) the critical accounting policies and practices to be used; (ii) all alternative treatments of financial information discussed with management, ramifications of alternative treatment and the treatment preferred by the firm; (iii) other material communications between the firm and management; and (iv) required communications from the firm under Statement of Auditing Standards No. 114, as amended;

c. subject to subsequent Board consideration and action, review and approve the mandatory annual audit of the financial statements. Review and/or compliance audit reports, including the annual audit reports on federal awards received as required by the Office of Management and Budget Circular A-133, and the financial agreed upon procedures report of institutional National Collegiate Athletic Association programs;

d. resolve disagreements between management and the independent audit firm regarding financial reporting;

e. review the independent audit firm management letter comments regarding institutional financial internal controls, accounting policies and procedures, and management’s response to those comments;

f. review with management, the Office of Audit Services, and the independent audit firm their respective judgments about the quality of University accounting principles; the consistency, and the degree of aggressiveness or conservatism, in the application of accounting principles; the reasonableness of significant accounting judgments; and the clarity and completeness of the financial statements and related disclosures;

g. confirm with management, the Office of Audit Services and the independent audit firm respectively that the annual financial statements disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships of the University with unconsolidated entities or other persons that may have a material current or future effect on institutional financial condition, and the results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses;
h. receive reports from management, the Office of Audit Services and the independent audit firm, regarding new and significant accounting standards to understand their impact on institutional financial statements;

i. receive reports from the Office of Audit Services regarding any financial fraud which, in single incident or aggregate, results in an institutional uninsured or insured loss in excess of $10,000;

j. review the organizational structure, qualifications, independence, scope of services inclusive of office charter, and adequacy of resources of the University’s Office of Audit Services;

k. annually review the appointment, evaluate the performance and set the salary of the chief internal auditor;

l. identify and document specific administrative responsibilities relevant to the routine operations of the office of chief internal auditor that are assigned to the President;

m. ensure that regular quality assessment reviews of the internal audit operations are performed in accordance with Institute of Internal Auditors standards; and,

n. meet separately with both the internal and external auditors without management representatives present subject to the requirement of the Vermont open meeting laws.

IV. Internal Controls

The University’s executive management and the Board of Trustees Audit Committee have adopted the Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework to help assess and enhance its internal control systems.

a. Certifications

i. The Committee will receive periodic reports from management on representations it is rendering in conjunction with mandatory annual audit of the financial statements and/or compliance audits as well as significant and material debt financing, such as issuance of bonds.

ii. Without limitation on IV.a(i), the Committee will receive from the Vice President for Finance & Administration and University Treasurer record of certification along with the annual financial statement report that:

a. He/she has approved the financial statements,

b. Based on his/her knowledge, the report does not contain any material errors or omissions,

c. Based on his/her knowledge, the financial statements materially present the financial condition and result of operations,
d. He/she is responsible for establishing and maintaining a system of internal controls over financial reporting, and that,

e. He/she has disclosed to the auditors and the Audit Committee all significant internal control deficiencies and changes that could materially affect financial data.

b. Policy Review.
The Committee will receive for its review and comment and, if necessary, its recommendation to the Board, institutional policies relevant to its scope of work, including conflict of interest, ethical and fraudulent conduct, whistleblower protection, and documents retention.

c. Required Disclosures and Compliance Monitoring.

The Committee shall oversee compliance with the Board Reserved Rights and Delegated Authority resolution. Violations of the Board Reserved Rights and Delegated Authority resolution identified by management or the internal audit office shall be reported to the Committee.

d. Confidential Reporting.

The committee will ensure that the University has a mechanism that permits confidential communications from employees and others regarding potential financial or accounting improprieties or nonfeasance.

V. Compliance

a. Review with the Office of Compliance Services, the effectiveness of the University’s practices related to monitoring compliance with laws and regulations;

b. Review with the Office of Compliance Services and management, the results of management’s investigation and resolution of any reported, or otherwise discovered, significant instances of noncompliance;

c. Review with the Office of Compliance Services and management, the findings of any compliance examinations by regulatory agencies and any auditor observations;

d. Review with the Office of Compliance Services, the process for communicating the code of business conduct to University personnel and for monitoring compliance therewith;

e. Receive quarterly reports from the Office of Compliance Services on its activities;

f. Receive updates from the Office of Compliance Services and management on new and emerging compliance issues, including their impact to the University; and

g. Receive as needed, through the Audit Committee Chair, compliance matters communicated directly by the Chief Compliance Office (by virtue of the dotted line relationship).
As approved by the Board of Trustee: November 13, 2004
Approved as amended by the Board of Trustees: September 8, 2007
Revised by the Audit Committee: November 12, 2007
Approved as amended by the Board of Trustees: December 1, 2007
Revised by the Audit Committee: April 28, 2009
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Revised by the Audit Committee: October 11, 2010
Approved by the Board of Trustees: October 30, 2010