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 2, 2012 at 9:30 a.m. in the Livak Ballroom, Room 417-419 Dudley H. Davis Center.

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

MEMBER ABSENT: Carolyn Branagan

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, Renee Bourget-Place and Sarah Timmerman of KPMG and Tanya Morehouse* and Tom Salmon*** of the State Auditor’s Office

* Participated via teleconference call
** Joined via teleconference call at 10:00 a.m.
*** Excused himself prior to the Executive Session

Chair Mark Young called the meeting to order at 9:30 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the November 14, 2011, meeting minutes.

Chief Internal Auditor Update

Chief Internal Auditor William Harrison began by providing the Committee with an update on the Office of Audit Services (OAS) staffing. Next, he provided a brief summary of the audits listed in his written status report provided in advance to the Committee. The OAS has issued nine reports for the FY 2012.
Mr. Harrison moved on to update the Committee on the results of the OAS Cash Receipts Self-Assessment Questionnaire. The questionnaire was designed to explore the University’s performance regarding adherence to policy requirements and best practices related to the handling and depositing of cash receipts. In summary, the results indicated that individuals responsible for cash receipts reported being aware of and responding to the need for strong internal controls. However, the questionnaire results may also indicate the need for further discussion and analysis of certain cash controls within individual business units. Mr. Harrison referred the Committee to a summary of the questionnaire responses beginning on page 8 of his status report.

Referring to the Cash Receipts Questionnaire, Trustee Botzow noted the idealistic nature of the surveys questions. In response to Trustee Botzow’s questions about the practicality of implementing some of the controls and how improvements would be measured, Mr. Harrison explained that the purpose of the survey was to create awareness and have units examine their practices. In the event that a particular business unit was constrained in implementing a best practice control (e.g., segregation of duties) it would be aware of the issue and could implement compensating controls. Vice President Cate added that he is working with the Controller to eliminate cash and check handling transactions at the University that are not processed by the Cashier’s Office.

Ms. Bourget-Place confirmed for Chair Young that Athletic ticket sales were responsible for the largest number of cash transactions on campus.

Next, Mr. Harrison reported that his Office is working with the Information Security Officer (ISO) to develop a general IT control self-assessment questionnaire. The questionnaire will help to better understand and communicate control areas that may need to be strengthened as well as to build awareness in the community of the importance of general IT controls, particularly for decentralized IT personnel. He plans on reporting the community’s response at the April 30, 2012 Audit Committee meeting.

Mr. Harrison presented a summary of the follow-up status of recommendations made in ten internal audit reports. For informational purposes, he referred the Committee to the OAS audit follow-up procedures beginning on page 19 of his status report.

Mr. Harrison clarified for Chair Young that six months is the typical timeframe for OAS to follow-up on the status of a corrective action plan and schedule a follow-up review, although that period can vary depending on Management’s proposed timeline. Mr. Harrison also addressed several questions regarding the tracking and reporting of any deviation from Management’s proposed timeline for addressing audit recommendations. Mr. Harrison explained that he would alert the Committee of any issues with medium to high-risk findings and will provide a summary of this information in future status reports. Ms. Drummond noted that where audits reveal compliance findings, her office works with management to obtain independent legal or other advice and develop mitigation plans, as necessary, all within a six months timeframe.
Mr. Harrison concluded his presentation by, briefly, reviewing the results of the OAS Audit Quality Survey.

**Chief Compliance and Privacy Officer Update**

Ms. Drummond began with an update on the FY 2012 Compliance Work Plan. She provided a summary of her Office’s work on the Department of Education’s Program Integrity Rules as detailed in her report provided in advance to the Committee. The Program Integrity rules were issued in October, 2010 and cover an extensive array of issues and involve myriad offices around the University. She discussed the risk of non-compliance in terms of probability and impact, noting that compliance for HEOA matters, including compliance with the Program Integrity Rules is a part of participating in Title IV funding, which the University is reliant upon for continued operations. The Office's work included outlining the new requirements and documenting management’s compliance activities in order to assess compliance; specifically, developing guidance and materials, facilitating communications, developing strategies and working with management regarding identified gaps. This work is detailed in the Office's Program Integrity Compliance Matrix and supporting documentation. Ms. Drummond noted that substantial progress has been made in all areas and the University appears on target to meet the compliance deadlines and close existing gaps. Ms. Drummond then highlighted the major topics covered by the Program Integrity Rules and management’s compliance activities, commending various offices for their efforts in ensuring that compliance goals were met.

Ms. Drummond moved on to discuss other FY 2012 work plan efforts. The Office continues its work with the Sponsored Project Administration Office on a compliance plan and timeline to meet the new the Department of Health and Human Services (HHS) requirements. Compliance with the new rules is required by August 24th, 2012 and includes 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. Ms. Drummond thanked Associate Vice President for Research Administration, Ruth Farrell, for her work in this area, commenting on the fact that Ms. Farrell has already developed a compliance work plan and timeline.

Another item on her work plan, the Title IX Dear Colleague Letter, was also discussed. The Compliance Office continues to provide support to management in addressing the Department of Education Title IX Dear Colleague Letter regarding sexual harassment and sexual assault. The requirement requires significant changes to policy and process. Related to that work, the Office performed a mini-assessment of this year’s Clery report. This assessment, outlining recommendations for improved practices in the area of Clery reporting, was distributed to the Vice President for Finance and Administration, the Chief Diversity Officer, the Associate Vice President and Dean of Students, the General Counsel, the Provost, the Chief of Police, and the Director of the Women’s Center, as well as the Director of Affirmative Action and Equal Opportunity.
Chairman Young commented that the University had been audited in the area of its required reporting of sexual violence. For this reason, Ms. Drummond is monitoring this area very closely.

Next, Ms. Drummond reported on follow up work from the FY 2011 work plan. In the area of laboratory safety, she reviewed management’s progress responding to the items on the Compliance Office’s report on Laboratory Safety. The Vice President for Finance and Administration and his team have put together a matrix of the issues that were in the report along with some additional issues. They are in the process of creating a timeline containing the responsible official, what the corrective action is needed and what date the action will take place. Ms. Drummond also reported a Request for Proposals (RFP) for a feasibility study related to the Cook Physical Sciences Building was issued in the Fall of 2011 and an architecture firm has been selected. The consultants will ultimately provide options to solve certain problems related to mechanical, electrical, ventilation and heating systems, with accompanying cost estimates. Finally, Ms. Drummond reported the Environmental Health and Safety Office has put in place a laboratory safety protocol on their website that was developed through the Laboratory Safety Workgroup co-chaired by the CCO. That group continues to meet for purpose of sharing information and concerns, which is an excellent development. The increased participation of faculty and academic administrators will also help with laboratory safety efforts, generally.

Ms. Drummond continued on to give an update on compliance with the Fair Labor Standards Act (FLSA). She was pleased to report that the University has implemented a new time reporting and approval processes to better meet compliance with FLSA for non-exempt employees. Implementation occurred in the first pay period of January 2012. A long-term review in this area is also being conducted and Ms. Drummond will continue to follow-up on the program’s rollout and compliance with the new processes. This item was developed through an initial audit finding and represents the effective coordination and complementary nature of both the audit and compliance offices.

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 nine distinct compliance and privacy consultations for the period October 24th, 2011 through January 6th, 2012, bringing the cumulative total to over 147 consultations.

Next, Ms. Drummond provided an update on the Ethics and Compliance Reporting Help Line. There have been a total of twenty-two reports made to date, fourteen of which have been closed. Three of the outstanding reports have been referred to Audit Services and five have been referred to management.

Ms. Drummond informed the Committee that in recognition of January being Data Privacy Month for Higher Education, the Privacy Office in collaboration with the Information Security Office sponsored a series of three EDUCAUSE webcasts. Invitations were sent to members of the Privacy, Information Security and Data Retention
Workgroup, representing over 100 individuals with significant privacy responsibilities on campus.

Ms. Drummond moved on to report that her Office had completed an inventory of all the compliance training that occurs on campus. This includes over one hundred different compliance training tracks, each one to a unique audience. The Office has begun to assess the inventory and will be reporting to the Compliance Education Workgroup, senior management, and the Audit Committee on the issues identified. The assessment will include: identifying legally required mandatory trainings, gap identification, and recommendations for improved delivery, efficiencies/consolidation, record keeping/tracking and quality initiatives.

The Office has also issued the revised policy “Adoption of University Policies, Operating Procedures and Guidelines” and the corresponding “Annual Policy Process” which was approved was by the President on December 5th, 2011. These revisions incorporate the new “rule making” process developed in collaboration with the General Counsel and Vice President for Executive Operations and reviewed by University governance groups. Additionally, the Chief Compliance Officer has notified all responsible officials of the new process, identified the policies that are being reclassified as Operating Procedures and requested input regarding new policy needs.

In conclusion, Ms. Drummond addressed the area of communications. The Office has made several changes to its website, importantly including a “mini-matrix” which sets out officials and offices for major areas of compliance. This change will allow better understanding for the University community of responsibility for compliance matters.

Ms. Drummond provided clarification to Trustee Botzow in regards to his questions about the new HHS conflict of interest rule lowering thresholds for disclosures from $10,000 to $5,000. She confirmed that Principal Investigators are required to disclose this information. She explained that the University is considering lowering the threshold across the board for these types of disclosures.

Trustee Botzow also noted under the new Program Integrity Rules that the distance education component is rather elaborate and burdensome. He inquired if there was a clearinghouse for this process. Ms. Drummond noted she was very familiar with clearinghouses and uniform form development in other industries, but noted that nothing comparable exists for higher education at this time.

Chair Young reported that he would now be reporting to the Board on government reviews.

**Information Security Officer Update**

Information Security Officer, Dean Williams, provided a summary of his Office’s work since the last Audit Committee meeting. He began by providing a summary of his team’s work helping merchants comply with Payment Card Industry Data Security Standard.
(PCI DSS) requirements. The Payment Card Security Steering Committee has met twice and is currently working on a model for allocating costs associated with the secure network required by some merchants. Additionally, the Information Security Operations (ISO) team has selected a Security Information and Event Management (SIEM) system. This system is necessary to automate some of the key PCI DSS required monitoring. Mr. Williams reported that this system is currently being implemented.

Mr. Williams moved on to discuss his efforts to promote information security awareness at the University. He discussed January as being Data Privacy month for Higher Education and the Information Security Office's collaboration with Compliance and Privacy Services sponsoring presentations on privacy and security risks. Additionally, Jennifer Frank, a special investigator with the Plymouth State University Police Department, is scheduled to speak at UVM later this month. She will discuss social networking as well as cyber bullying and reputation management. Mr. Williams has met with Human Resources Services and presented on general information security topics. He is also scheduled to meet with Continuing Education. The University community has welcomed Mr. Williams’ educational efforts and continues to request more.

Next, Mr. Williams offered highlights of his team’s work, and information security work done by Enterprise Technology Services (ETS), since the last Committee meeting. The ETS Client Services department helped destroy approximately 300 hard drives containing protected University data. The ISO team was part of a joint effort with the Federal Bureau of Investigation helping inform users of potentially comprised credentials resulting from a crime ring maliciously running Internet servers. Furthermore, work has been done, led by the ETS Systems Architecture and Administration group, to transition to universally recognized security certificates. This work will result in reduced end-user confusion and increased trust in the University’s online systems. Membership in InCommon has made this move financially and technically possible. Finally, Mr. Williams’ team has issued several alerts and addressed concerns ranging from compromised credentials to phishing and other email scams.

Mr. Williams moved on to discuss other information security and identity management activities. He explained that his Office along with Compliance Services and the Center for Student Ethics and Standards receives copyright complaints about illegal file sharing. He noted the number of complaints per individual has gone up. ETS is looking into ways to automate detection of misuse and reduce the number of complaints. His Office is also working with Compliance and Privacy Services and Research Protections on security of research data. The three offices have been able to provide advice on ways to store and protect data. Lastly, the ISO Team has provided support to Audit Services. They continue to work with the CatCard Office and the Extension system to address concerns and recommendations documented in recent audits.

In conclusion, Mr. Williams updated the Committee on the status of the Information Security Engineer position and hopes to be introducing the new Information Security Engineer at the next meeting.
Presentation of the National Collegiate Athletic Association Agreed-Upon Procedures (NCAA AUP) Report

Ms. Bourget-Place presented the results of the report noting 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 Botzow’s asked Ms. Bourget-Place about summer sports camps and if UVM had any exposure in this area. She noted that UVM does not have financial exposure because most summer camps are now managed externally by coaches under contract with UVM. Vice President Cate added that under the direction of the President, a review of all types of risks associated with minors was being conducted including programs affiliated with the University such as the summer sports camps. He also confirmed for Chair Young that the coaches running the camps must provide a certificate of insurance.

Presentation of the FY 2011 OMB Circular A-133 Audit Report

Ms. Bourget-Place of KPMG reported the total federal expenditures for FY 2011 were $242,040,729. Major federal programs were:

✓ Medicaid - $8,262,607
✓ Research and Development Cluster - $98,282,494

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. There were no reportable findings.

Trustee Botzow expressed his appreciation for the clean audit and noted the last time the University had received such a clean audit was over five years ago. At Trustee Botzow’s request, Ms. Bourget-Place explained the benefits of the University being a low-risk auditee.

Controller, Claire Burlingham, thanked Jennifer Gagnon, Co-Director of Sponsored Project Administration, for her team’s great work.

KPMG Presentation of the FY 2012 External Audit Plan

Ms. Bourget-Place presented KPMG’s FY 2012 external audit plan by providing an overview of the engagement team, objective of the audit and responsibilities, and KPMG’s audit methodology. She also noted KPMG’s initial assessment of significant accounts and disclosures and the audit timeline and deliverables. Regarding the OMB Circular A-133 audit, KPMG has identified two major programs to be tested in FY 2012 noting that additional programs may need to be tested if Federal stimulus funds are
received in non-R&D programs. The plan is very similar to the one used in FY 2011 and KPMG will keep the Committee apprised of any changes.

Ms. Bourget-Place also noted that KPMG has been selected as the UVM Foundation’s financial statement auditors. Trustee Botzow asked if there would be any coordination between the UVM and UVM Foundation Audit Committees and sharing of the UVM Foundation’s management letter. There was a discussion about KPMG performing the annual financial statements audit for the UVM Foundation and the roles and responsibilities of the respective Audit Committees. In closing, Chair Young explained that the Audit Committees would be autonomous; however, the UVM Audit Committee will have the opportunity to see the UVM Foundation’s audit report and that there is a mechanism in place to address any questions or concerns.

Controller Burlingham said that a correction should be made in KPMG’s presentation of the major programs for the A-133 audit noting that there were no material weaknesses in the Research and Development Cluster for FY 2011.

Ms. Bourget-Place explained for Vice Chair Rocheleau that the Audit Committee Charter requires rotation of external audit partners after seven years.

Vice President Cate noted that the impact of Post Retirement Benefits on the University’s Balance Sheet should be reduced in future years.

In response to Trustee Botzow’s question about the Audit Committee responsibilities for setting the proper tone, culture and ethics, Ms. Bourget-Place said that reporting by the Offices of Compliance Services and Audit Services to the Audit Committee indicates that it is satisfactorily meeting this responsibility.

The Chair presented the following resolution for approval:

**Resolution Authorizing Retention of External Audit Firm for FY 2012**

RESOLVED, that the Committee authorizes and directs the Committee Chair to retain KPMG LLP, Certified Public Accountants, to conduct the mandatory annual audit of the financial statements and compliance audits for the fiscal year ending June 30, 2012, 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.

**Enterprise Risk Management (ERM) Update**

In response to the Audit Committee’s request at its November meeting, Vice President Cate provided a brief update to the Committee on the articulation and adoption of a risk
tolerance statement that specifies the amount and type of risk that an organization is willing to take or retain in pursuit of its mission. Although it is a recommended practice for ERM programs, he noted the University is not alone in its struggles to figure out how to implement this practice. The University feels it is better served to use the heat map and impact scales process to evaluate risks individually.

Vice Chair Rocheleau commented that the articulation and adoption of a risk tolerance statement takes time and requested the topic be revisited in the future as the Committee deems appropriate. He would also like a better understanding of how the impact and likelihood scales for risk and opportunity and heat maps will be used to evaluate risks and risk tolerance. Vice President Cate responded that is exactly what the Committee will see.

Ms. Bourget-Place provided her own observations about other Board’s and Audit Committee’s work on their ERM implantation and programs.

Vice President, Richard Cate, explained that a list of key strategic risks would be brought to the Board and from there work would be assigned to various committees. He added that the ERM program is required to report regularly to the Audit Committee and annually to Board.

**Travel and Expense Audit and Management Response**

Trustee Botzow summarized the ad hoc Report Oversight Committee’s work to ensure the University has protocols in place that reduce or eliminate exposure when working with volunteers and expense reimbursements. Chief Internal Auditor Harrison updated the Committee on the results of the travel and expense audit focusing on the report’s open recommendations. Controller Burlingham updated the Committee on the status of the report’s recommendations related to the Travel policy and training.

A conversation was prompted by Chair Young’s question about the number of purchasing cards at the University. Controller Burlingham confirmed there are approximately 1,900 cards each with a $25,000 cycle limit. In response to Chair Young’s concerns with the number of cards and UVM’s exposure in this area, Vice President Cate committed to completing management’s analysis of purchasing card program data, educating the community on any necessary changes, and taking corrective action including reducing the number of cards by the end of the calendar year.

**Other Business**

At 11:24 a.m., a motion was made, seconded and approved to go into executive session to consider civil actions, contracts, a personnel matter, and the evaluation of public officers or employees. All in attendance were excused from the meeting, with the exception of Trustees, Vice President Richard Cate, Chief Internal Auditor William Harrison, Chief Compliance and Privacy Officer Anna Drummond and Tanya Morehouse of the State Auditor’s Office. Trustee Davis excused himself from the remainder of the meeting before the second agenda item.
Vice President Richard Cate was excused from the meeting following the second executive agenda item.

Chief Internal Auditor William Harrison was not present for the first and fourth items, but was present for the second and third items.

Chief Compliance and Privacy Officer Anna Drummond was not present for the first three agenda items, but was present for the fourth agenda item.

**Adjournment**

The meeting was re-opened to the public at 12:37 p.m. There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair