A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Wednesday, November 7, 2012 at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Mark Young, Bill Botzow, Carolyn Branagan, Jeff Davis*, David Potter and Dennis Mahoney

MEMBER ABSENT: Vice Chair Dale Rocheleau

REPRESENTATIVES PRESENT: Don Ross on behalf of Faculty Representative Albert Joy, Staff Representative Marie Tiemann, Alumni Representative Bill Cimonetti, Graduate Student Representative Cornell Woodson and Student Representative Chris Juaire

REPRESENTATIVES ABSENT: None

PERSONS ALSO PARTICIPATING: President Thomas Sullivan, 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, Controller Claire Burlingham, Renee Bourget-Place, Sara Timmerman, and Kristen Aulis of KPMG, and Tanya Morehouse of the State Auditor’s Office

* Participated via teleconference

Chair Mark Young called the meeting to order at 9:58 a.m.

Chair Mark Young thanked President Thomas Sullivan for his attendance at the meeting. He also thanked President Thomas Sullivan, Tanya Morehouse and Rene Bourget-Place for meeting with him prior to the meeting.

Approval of Minutes

A motion was made, seconded and voted to approve the September 10, 2012, meeting minutes.

Chief Internal Auditor Update

Chief Internal Auditor William Harrison referred to his written update previously distributed to Committee members. Since the September meeting, the Office of Audit Services (OAS) has issued one report on the Center for Health and Wellbeing’s system access control and other matters. He noted the report included five recommendations.

Following up on the Committee’s request at the September meeting, Mr. Harrison reviewed his recommendations regarding additional performance metrics to be reported to the Committee on the follow-up status of internal audit recommendations. His recommended model consisted of two components 1) classifying audit recommendations as essential, significant, or useful depending on their potentially negative impacts and 2) classifying the status of audit recommendations as green,
yellow or red to indicate management’s progress towards implementation of the recommendations. A green status indicates management is on track to implement the recommendations according to their timeline. Yellow indicates progress towards implementation of the recommendations however; the timeline has been extended beyond the original agreed upon dates. Red would indicate a lack of progress towards implementation of recommendations. Finally, Mr. Harrison proposed providing semiannual reports to the Audit Committee at the July and February meetings; these reports would include “essential” and “significant” recommendations.

In conclusion, Mr. Harrison announced the departure of Deputy Auditor John Copoulos.

Tanya Morehouse, of the State Auditor’s Office, expressed her concern about using the risk assessment criteria scale and asked for clarification as to why Mr. Harrison chose to use this model rather than the one used by auditing standards, as they use different levels of impact. Mr. Harrison explained that his office deals with a variety of different issues and since the University has an Enterprise Risk Management (ERM) program, he felt it was best to be consistent with management’s ERM process. He noted the classification is based upon the audit’s scope and although “essential” findings may not have an impact on the University overall, they could on specific departments or units. Mr. Harrison provided Ms. Morehouse with an example of a recent audit report containing “essential” findings. Ms. Morehouse recommended referencing the ERM risk assessment document; if this will be the policy audit report classifications will follow.

Ms. Morehouse and Mr. Harrison addressed Trustee Bill Botzow’s questions about the differences between standard auditing practices and risk assessment criteria clarifying Mr. Harrison’s proposed process would be an internal audit policy and not a Board policy. Mr. Harrison explained the classification process is consistent with what other Internal Auditors are using to report to management and their Boards. Ms. Bourget-Place noted the context and reference the reports would provide and would keep the Committee abreast of important issues.

Mr. Harrison confirmed for Chair Young that he will provide a complete audit follow-up status report at the February meeting. Additionally, he will provide the Committee with a complete list of recommendations (essential, significant, useful, and those not previously rated) so that they may evaluate the threshold and discuss the new framework.

**Chief Compliance and Privacy Officer Update**

Ms. Drummond offered a summary of her report previously distributed to the Committee. She began with an overview of the process; that is, the compliance risk assessment and compliance work plan provided to the Committee in July and then installment reports for each work plan item spread throughout the year. At this meeting, Ms. Drummond provided an update on the Fiscal Year (FY) 2013 Compliance Work Plan efforts regarding her multi-year efforts on Privacy, Information Security, and Data Retention. Her Office has amended the Records Retention Policy to address the new risks and emerging practices that have become increasingly prevalent in the face of advancing technologies, electronic records and communications, and greater privacy concerns. The Compliance Office’s methodology included a literature review of best practices both inside and outside of higher education as well as a meeting with the Vermont State Archivist, Tanya Marshall. Ms. Marshall provided good comments on the University’s draft policy and discussed management of records over a complex organization. Additionally, the Office met with the University Archivist, the Information Security Office, General Counsel and worked with approximately thirty offices that are responsible for maintaining specific records.
Ms. Drummond explained that the revised policy gives guidance with respect to the life cycle of a record from creation, maintenance, access, sharing and destruction. The policy covers over 300 University records.

Moving on, Ms. Drummond highlighted some of the policy changes. Much effort was put into guidance surrounding the issue of ensuring electronic records cannot be manipulated to maintain the integrity of the records, that destruction requirements are met, that the appropriate people had access to the records, and that legacy systems could continue to be utilized for the life of the records. Ms. Drummond noted that special considerations for email and archival records were newly addressed in the policy. Other changes included addressing copies of records and alignment with the Privacy Policy, Information Security Policy, and Data Breach Notification Policy, which are new and did not exist with the old policy. The Office worked with each responsible department to ensure they were meeting regulatory requirements. In addition, discussions with departments were conducted concerning which regulatory requirements applied to them and whether they were consistently dealing with record destruction and maintenance.

Ms. Drummond thanked Vice President and General Counsel Fran Bazlake for the creation of the University Operating procedure addressing litigation holds which Ms. Drummond flagged as a gap. The procedure will provide greater clarity around who issues these and how they work. Additionally, issues surrounding research data will be included in a separate policy.

Other work in the area Privacy, Information Security, and Data Retention included efforts with the Chief Information Officer (CIO) and Information Security Officer (ISO) reviewing data collected last year regarding the identification of private and/or sensitive University information and its utilization. The group is working with the specific departments and Assistant Deans responsible for these documents to provide guidance on document collection and storage.

Ms. Drummond moved on to thank the President for his assistance developing a message promoting the values of integrity, transparency and fair dealing in accordance with UVM’s motto and Our Common Ground. The message also serves to set a “tone at the top” for the Compliance Office and for ethics, generally, at the University. She noted this was the first such message obtained by the Office. This message is available on the Compliance website and was delivered to all faculty, staff and officers of the University.

Continuing with her presentation, Ms. Drummond noted ongoing work regarding the International Education Office and immigration issues. She plans to report on this component of the FY 2013 Compliance Work Plan at the February meeting. The Office also continues its work with the Associate Vice President for Research Administration regarding Sponsored Project Administrations efforts to address the compliance observations identified in the Subrecipient Monitoring Audit Report #12-010. Most of the implementation effort is planned to begin in Calendar Year (CY) 2013 and due to this timeline, the Office will report more fully in February.

Ms. Drummond concluded her presentation with updates on data collection and the Ethics and Compliance Reporting Help Line. With respect to consultations, the Office of Compliance Services continues to provide compliance and privacy consultations upon request or in response to new regulatory requirements. The cumulative total of independent consults is well over 200. Additionally, at the time of her report, there had been twenty-nine reports to the Ethics and Compliance Reporting Help Line, twenty-one of which have been closed.
Ms. Drummond addressed Trustee Bill Botzow’s concerns about the Records Retention policy and the University’s use of vendors providing cloud computing services. She explained the policy addresses records in the University information systems and compliance with regulatory requirements. Regarding the information security issues surrounding this topic, Ms. Drummond noted the General Counsel, the Chief Privacy Officer and the Chief Information Officer review contracts for externally hosted data. Mr. Todd explained his contract review ensured the University’s ownership of data and that all data is returned to University when contracts are terminated. He commented that the University does not have a lot of information on the cloud. Additionally, Ms. Drummond addressed separate work being performed with the ISO regarding emergency planning and backup tapes of University information system data. Trustee Bill Botzow noted the use of Gmail. Ms. Drummond commented that she is collaborating with the State Archivist to form an informal group of records management professionals from around the state to keep abreast of emerging issues related to records retention and management.

Responding to Tanya Morehouse’s question about records retention training, Ms. Drummond explained that the Office has worked extensively with the responsible offices themselves; the individual offices have the responsibility for ensuring compliance with the Records Retention policy. Additionally, and in tandem with ETS, the Office reaches out to departments or groups as needed; a recent example has involved work with the Assistant Deans.

Chair Mark Young inquired into whether Ms. Drummond was part of the work other departments were doing to address immigration and internationalization. Ms. Drummond responded that she had taken part in the Risk Management group and collaborated with the Director of International Education, but was not involved with any other groups.

Information Security Officer Update

Information Security Officer (ISO) Dean Williams provided a summary of his Office’s work since the last Audit Committee meeting. Referring to his written report provided in advance to the Committee, he began with an overview of the planning underway for an independent assessment of the University’s key information collections. This assessment would supplement the quarterly vulnerability scans conducted by Enterprise Technology Services (ETS). It has been determined that the PeopleSoft system (human resources, financials, and budgeting) will be the first area of focus. The ISO team is considering the scope and process for a preliminary vulnerability assessment as well as the rules for engagement for penetration testing. Mr. Williams explained the overall goal is not to learn whether a particular server can be compromised, but rather in what ways it might be possible to compromise the confidentiality or integrity of University information. Social engineering strategies are at least as likely to succeed, as are technical strategies such as direct attacks on networks, servers, and information systems. For this reason, more resources will be invested into carrying out tests from within the network. Realistic recommendations for effective and feasible improvements in security are expected. The next step will be to develop a Request for Proposals (RFP).

Continuing with his presentation, Mr. Williams provided a brief summary of the University’s participation in National Cyber Security Awareness Month throughout October. The ISO Team hosted five web-based presentations for audiences ranging from information technology professionals to the general population.

Mr. Williams moved on to update the Committee in the area of Payment Card Industry Data Security Standards (PCI DSS). The ISO team continues to assist UVM merchants in becoming compliant with
PCI DSS, as well as helping them document their compliance through the Self-Assessment Questionnaire (SAQ) process. Transportation and Parking Services Business Manager Anne Martin was the first merchant to be fully compliant with PCI DSS with a system within the University’s Actively Secured Private Network (ASPN). Mr. Williams thanked Ms. Martin for her efforts to complete this process. He also thanked CatCard Director Mark McKenna, the ISO team, and Patty Eldred for their efforts moving the CatCard system into ASPN in October.

In conclusion, Mr. Williams noted at least half of the University’s merchants are fully in compliance and have passed their annual SAQ’s. The SAQ for the CatCard system still needs to be completed. Additionally, the Bookstore, the University’s largest merchant, is almost completely in the ASPN environment.

Chair Mark Young inquired into when the process for penetration testing and the RFP will be done. Mr. Williams projected the first half of 2013.

Mr. Williams addressed Representative Marie Tiemann’s questions about information security education for staff. He noted that the ISO team works with Learning Services educating new employees at their orientation sessions. The team’s goal is to offer more courses through Learning Services, lead sessions at EDU @ UVM, and work with individual departments.

Trustee Bill Botzow asked Mr. Williams how large the audience was for the National Cyber Awareness Month events and how to reach out to those who did not participate. Mr. Williams acknowledged very few Information Technology (IT) professionals participated; however, he was unsure of how many people were able to take advantage of viewing the presentations at their desks. He will continue to reach out to IT professionals so that they can assist others in making information security decisions. Mr. Williams noted that multiple strategies are needed to provide effective information security education.

Ms. Morehouse noted fifty percent of the University’s merchants are in PCI DSS compliance and inquired into the risk of non-compliance. Mr. Williams and Ms. Burlingham confirmed that banks are looking for progress towards completion and noted the other merchants are close to compliance.

Chair Mark Young questioned the volume of compliant transactions. Ms. Burlingham and Mr. Williams confirmed that both small and large merchants were working towards compliance. Overall, the merchants are making great progress. Mr. Williams noted the Bookstore, the largest merchant by dollar and transaction volume, is very close to having all of their system within ASPN and from there will need to complete their SAQ.

Presentation of the FY2012 Annual Financial Report and Management Letter findings

Vice President for Finance and Administration Richard Cate began by thanking and congratulating Controller Claire Burlingham and her team for another clean audit.

Controller Claire Burlingham presented the FY 2012 Annual Financial Report to the Committee. KPMG issued their audit opinion on October 30, 2012. The University received an unqualified opinion stating that the Financial Statements, as prepared by management, were presented fairly in all material aspects of the financial position of the University as of June 30, 2012. Ms. Burlingham noted the two audit opinions, the accounting standard and governmental, in the report.
Next, she referred to the FY 2012 Management Letter at the University. She addressed a prior year observation concerning employee benefit reconciliations and progress towards formalizing a reconciliation process. With the recent PeopleSoft upgrade, work will be done to automate the quarterly reconciliation process.

The second observation concerned the post-employment benefit liability calculation (OPEB). KPMG recommended the University work with their external actuarial firm to ensure that they are appropriately considering improvements in mortality. Ms. Burlingham noted that the University’s actuarial firm did not need to use the new standards because FY 2012 was not a full valuation year. FY 2013 will be a full valuation year and all the current standards will be used.

Ms. Burlingham moved on to discuss some highlights of the Annual Financial Report. She reviewed the required financial materials in the report, the statement of net assets including a decrease of $30 million and key contributors to the changes in net assets.

Chair Mark Young noted the transfers from the University to component units and the substantial change from 2011 to 2012. Ms. Burlingham clarified the component units’ University Medical Education Associates Inc. (UMEA) and the UVM Foundation, accounted for $1.6 million and $1.15 million respectfully.

Chair Mark Young also inquired into the reconciliation between Human Resources and Blue Cross Blue Shield of Vermont. Ms. Burlingham confirmed that Blue Cross Blue Shield had refunded $70,000 and approximately $23,000 is still being disputed.

In relation to the Financial Statements, Trustee Bill Botzow asked Ms. Burlingham if she noted any trends the Committee should be aware. Mr. Cate noted the volatility of the market and its impact on the endowment. He also suggested improvements to facilities to offset depreciation.

Chair Mark Young questioned if post-retirement benefits are affected as much as Mr. Cate suggests they will ten years out, why they did not show in the University’s liability. Ms. Bourget-Place explained that the amortization period does not show the full impact of these benefits. Mr. Cate noted the large savings not having the benefit accrue to new employees.

Chair Mark Young expressed his gratitude for the opportunity to review the Financial Statements, Management’s presentation and KPMG’s presentation prior to the committee meeting.

KPMG Report to the Audit Committee

Renee Bourget-Place of KPMG provided the Committee with a presentation of the audited FY 2012 financial statements. She first outlined 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 2012 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. The audit resulted in no material weaknesses or significant deficiencies.
Ms. Bourget-Place confirmed for Trustee Bill Botzow that the observations in the management letter are not considered findings. These suggestions are not categorized as material weakness 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 Kristen Aulis, KPMG Manager. Ms. Aulis discussed areas of risk including: investments, contributions/split interest agreements, revenue, expenses (including capital and debt), personnel costs, and other areas including a high level review of the IT environment at the University.

Vice President Richard Cate confirmed for Chair Mark Young that once the UVM Foundation takes over the endowment, its changes in value would have a smaller impact on the University’s financial statements.

Trustee Bill Botzow asked Ms. Bourget-Place if she felt the University’s level of materiality was appropriate. Ms. Bourget-Place noted the level of materiality has been the same for several years and has not changed drastically over the past ten years. The materiality methodology is consistent with other Universities. She confirmed that management is not made aware of the audits level of materiality.

Ms. Bourget-Place next moved on to discuss the Management Letter. Ms. Bourget-Place noted Ms. Burlingham had addressed the first observation concerning employee benefit reconciliations. She commented on a new recommendation concerning the post-employment benefit liability calculation (OPEB). KPMG felt the University’s actuary firm should supply management with information so that they may choose to use the new regulations in off cycle years. Ms. Bourget-Place confirmed for Mr. Cate that adjustments are possible in off cycle years.

The remaining observations concerned IT. Ms. Bourget-Place noted the list of observations included recommendations from the prior year and management’s follow up responses. The observations included the use of the Mann Hall data center, password management, periodic reviews of network access, the need for policies and procedures that describe the requirements for making changes to information systems, external penetration testing, an updated computer disaster recovery plan, a consistent and timely internal reporting system to provide key enterprise wide information and metrics to the CIO, and a centralized IT asset inventory system.

Referring to the Mann Hall facility, Chair Mark Young questioned why the University chooses to grow its data centers on campus rather than the industrial park. Mr. Todd explained redundant servers and storage on campus serve as back up for the industrial park site.

Continuing on, Ms. Bourget-Place commented on two corrected adjustments; reclassification between realized and unrealized gains/losses for $1.2 million and adjustments to the cost basis of Partnerships for $3.7 million.
To conclude her presentation, Ms. Bourget-Place referred the Committee to the Top to-do’s for Higher Education Audit Committees and the 2012 Higher Education Outlook Survey included in the materials. The Survey identifies topics that are being addressed by the University such as Compliance and ERM.

President Thomas Sullivan noted in the 2012 Higher Education Outlook Survey’s key finding a statement that one third of the respondents, public and private, said that they would cut costs by implementing new cloud strategies. At the President’s request, Ms. Bourget-Place will follow up with specific information as to how other institutions are utilizing the cloud to reduce costs.

Ms. Bourget-Place responded to Trustee Bill Botzow’s inquire into the University’s progress toward implementing initiatives such as ERM and information security noting the ERM program was in the middle of the pack for higher education. What she has not seen is the governance piece of the ERM program.

**Recommendation of the FY 2012 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 2012 Audited Financial Statements**

WHEREAS, the books and accounts of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2012, 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 2012 Audited Financial Statements.

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

**Enterprise Risk Management (ERM) and Laboratory Safety Updates**

Vice President for Finance and Administration Richard Cate provided the Committee with a brief summary of ERM activities since the April 2012 Audit Committee meeting. He noted that the Audit Committee will be presented with recommendations as to the ERM process by which the Board will be engaged. The Committee will also be given an opportunity to review a shorter list of strategic risks and opportunities and compare it to the full list so that they may ensure the Board is presented with the most pertinent issues.

Mr. Cate concluded his presentation by noting UVM’s first Preliminary Risk Inventory had been finalized following a review by senior management and the ERM Advisory Committee. The Provost and Chief Risk Officer have assigned risks and opportunities to responsible officials. ERM staff have provided education and training to responsible officials and their designees on how to conduct a risk assessment using the Office’s Guide to Conduct a Risk Assessment. The risk assessments are on track to be completed shortly.
Laboratory Safety

Vice President Cate began by referring to his summary of remaining laboratory safety issues and Management’s actions. He noted many of the issues are related to the chemistry laboratories in the Cook Physical Science building as they are out dated and need to be replaced. Issues are addressed piecemeal but, with the large number of issues, the best way to fully rectify them is with either a complete renovation or new construction of chemistry laboratories on campus.

Mr. Cate is pleased with the improvements in the area of laboratory safety. He noted a position being filled dedicated to maintaining laboratory equipment and working with laboratory owners. He commented on the implementation of the LabCIIQ software that will help manage inventory and PeopleSoft will be utilized to track training.

Mr. Cate clarified that the Board will have the opportunity to tour the Cook facility later in the day.

Speaking more broadly on the topic of laboratory safety, President Thomas Sullivan noted the Education Policy Committee meeting being held Thursday, November 8 at 9:00 a.m. would address the topic of strategic capital plans.

Mr. Cate clarified for Trustee Carolyn Branagan that the chemistry laboratories in the Cook Physical Science building, used for research and teaching, were out of date. Trustee Carolyn Branagan questioned how the University could continue to be a competitive research institution with outdated laboratory facilities. President Thomas Sullivan encouraged the Trustees to participate in the tour of the Cook building. Trustee David Potter commented on the nature of laboratory safety being a continually evolving part of risk management.

Ms. Morehouse noted she found management’s laboratory safety updates helpful and suggested the Compliance Office, at some point, adopt a validation process similar to the one used by Audit Services for their recommendations.

Chair Mark Young questioned if there has been any involvement by the labor industry. Mr. Cate confirmed that the labor industry does get involved in fire protection and lifesaving codes issues and the Department of Environmental Conservation (DEC) may become involved in new inspections. Ms. Drummond noted the DEC had performed an inspection of the labs and partly for that reason laboratory safety had been included in the Compliance Work Plan.

Purchasing Card Program Review

Vice President Cate provided an update on the Grant Thornton review of the purchasing card program. Mr. Cate and Controller Claire Burlingham have requested additional work from the firm and anticipate that a final report will be ready for the February Audit Committee meeting. At Chair Mark Young’s request, Mr. Cate clarified the review of the purchasing card program was not an audit and was done on management’s behalf to expand upon the audit activity that happens within the Controller’s office. They were also seeking consulting advice on processes.

Other Business

At 11:30 a.m., a motion was made, seconded and approved to go into executive session for the purpose of discussing civil actions and the evaluation of public officers or employees. For the first
item, all in attendance were excused from the meeting with the exception of Trustees, President Thomas Sullivan, Vice President and General Counsel Fran Bazluke, Chief Internal Auditor William Harrison, Chief Compliance and Privacy Officer Anna Drummond, and Tanya Morehouse of the State Auditor’s Office. For the second item, Chief Compliance and Privacy Officer Anna Drummond was excused.

At 12:43 p.m., the Committee voted to return to open session (At 12:43 p.m., the first of two Executive Session signs (south side of room) was removed. The second sign (north side of the room) was removed at 12:44 p.m., as a motion regarding the reporting structure of the compliance program passed. As a result, the two persons who were outside the second door were not present in the room during the reading of the motion).

Following a brief discussion, a motion was made, seconded, and approved to:

1. Endorse the Administration’s proposal to restructure the compliance function to report directly to the Chief Internal Auditor and to have access and present reports and updates through the Chief Internal Auditor to the Board Audit Committee.

2. Request that the Chief Internal Auditor provide at a future meeting his specific plan with recommendations regarding the restructuring of the University’s compliance function to the Board Audit Committee for its consideration and approval.

Chair Mark Young then requested that Mr. Harrison update the Audit Committee on his progress at the February 2013 Board meeting.

Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair

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1 The sequence of events was communicated publicly by the Audit Committee Chair at a meeting of the Committee of the Whole the following day. To provide an opportunity for comment on the motion by governance representatives to the Committee and others, and to re-submit the motion to the Committee for ratification, the Audit Committee noticed a follow-up meeting, which occurred on November 12.