Audit Committee
Board of Trustees
University of Vermont and State Agricultural College

A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, April 28, 2014, at 10:00 a.m. in room 427A Waterman Building.

Members Present: Chair Mark Young, Vice Chair Dale Rocheleau, Carolyn Branagan, Samantha Lucas**, Ron Lumbra*, David Potter*, and Jeff Wilson*

Member Absent: None

Other Trustees Present: None

Representatives Present: Faculty Representative Barbara Arel, Staff Representative Wendy Coy, Alumni Representative Bill Cimonetti***, Student Representative Joshua Barry and Graduate Student Representative Jason Fuchs

Representatives Absent: Tanya Morehouse of the State Auditor’s Office

Persons Also Participating: President Thomas Sullivan, Vice President for Finance and Treasurer Richard Cate****, Vice President for Human Resources, Diversity and Multicultural Affairs Wanda Heading-Grant***** Chief Information Officer and Dean of University Libraries Mara Saule, Chief Internal Auditor William Harrison, Chief Compliance and Privacy Officer Anna Drummond, Information Security Officer Dean Williams, Interim Associate Vice President for Research Administration Jennifer Gagnon, Assistant Controller Michael Meunier, Interim Vice President for Research John Evans, and Claire Esten, Jamie Cote, and Carolyn Warger of Grant Thornton

* Participated via teleconference call
** Participated until 11:15 a.m.
*** Participated until 11:24 a.m.
**** Joined the meeting at 10:30 a.m.
***** Joined the meeting at 11:18 a.m.

Chair Mark Young called the meeting to order at 10:02 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the February 6, 2014, meeting minutes.
New Member Committee Orientation

Chair Young welcomed the new Audit Committee members and offered them an opportunity for questions. There were none.

Chief Compliance and Privacy Officer Update

Chief Compliance and Privacy Officer Anna Drummond began by introducing herself to the new Committee members. She provided a brief history of the compliance program, and explained that compliance is a tool for management to meet its regulatory requirements as well as an assurance activity for the Board in meeting its oversight and fiduciary responsibilities.

Ms. Drummond began her report to the Committee with an update on the Fiscal Year (FY) 2014 Compliance Work Plan. As background, she provided an overview of how the work plan is created. The work plan is framed from the annual Compliance Risk Assessment she performs and includes three to four areas selected for a deep dive. This year, two of these areas included the Violence Against Women Reauthorization Act ("VAWA") and The Office of Management and Budget (OMB) Uniform Guidance.

Ms. Drummond proceeded to explain and provide a summary of the Office’s efforts in the area of VAWA. The VAWA was signed by President Obama on March 7, 2013, with an effective date of March 7, 2014. This act imposes new compliance requirements for the University under its Campus Sexual Violence Elimination Act ("SaVE Act") provision, Section 304. This act is unusual because legislation has been released but the regulation is not due to appear until November 1, 2014, several months after the effective date of the law. The Office’s readiness assessment determined that University departments are well poised to meet the law’s requirements when the final regulation is promulgated. Since this law builds on earlier Title IX and Clery requirements, Ms. Drummond noted that much work has already been completed in these overlapping areas. The details of prior Compliance activities in these areas are provided in Attachment A of her written materials provided to the Committee.

Ms. Drummond further explained how the new obligations impact several University departments including the Office of Affirmative Action & Equal Opportunity, Police Services, the Dean of Students Office, and the Women’s Center, among others. The assessment performed by Compliance reviewed processes and procedures of these offices where applicable, reviewed University policy for required content, and reviewed related training programs provided to students and employees for content and audience requirements. On March 10, 2014, the Compliance Office distributed a memorandum to management summarizing the results of their assessment and offered recommendations for enhanced compliance regarding policy content, confidentiality provisions, and training. The Office will continue to work with management towards meeting compliance and will update their assessment subsequent to the issuance of final regulations.

The second area of the work plan where the Compliance Office has done a fair amount of
work is OMB Uniform Guidance. This guidance is intended to reduce fraud, waste, and abuse by streamlining eight circulars into one. It was released on December 26, 2013. Ms. Drummond highlighted some of the items that will impact the University. She invited Interim Associate Vice President for Research Administration, Jennifer Gagnon, and Assistant Controller, Michael Meunier, to describe management’s efforts in this area and how Compliance is working with them. They noted that their offices had been monitoring the regulations and had provided comments on behalf of the University regarding the proposed guidance through the Council on Governmental Relations (COGR). A substantial effort from several departments across the University will be required to evaluate and appropriately implement all the changes. It is expected that the final guidance will be issued later this year with most of the changes effective December of 2014.

Other work plan efforts include Export Controls, the Patient Protection and Affordable Care Act (PPACA), and Employment Issues. On March 31, 2014, Ms. Drummond presented an overview of Export Control regulations as well as a summary of the potential areas of risk to several Vice Presidents, the Provost’s Office and the General Counsel’s Office. Export control compliance rules impact several cross-university activities. As a result of the meeting, the Office is exploring future information sessions aimed at academic and research stakeholders. In the area of PPACA, the Office continues to serve on the University committee addressing compliance with the PPACA and has reviewed a draft proposal being put together for senior leadership by Human Resources. Finally, in the area of employment, the Office has completed a matrix outlining certain specific compliance issues, interrelated risks and suggested prioritization. The matrix was done at the request of the Vice President for Human Resources and was delivered on April 14, 2014.

Moving on, Ms. Drummond referred the Committee to Attachment A of her materials, Open and Outstanding Matters. She briefly reviewed this log of all the work plan items over the past four years including the status of open and outstanding recommendations and observations. For each item, the matter is shown as closed or pending, with all pending items having a date and a timeline for follow-up.

Continuing on with her presentation, Ms. Drummond noted that she had been invited to present at an upcoming national higher education compliance conference on the issue of effective compliance programs including building measuring tools by collecting and benchmarking data and then communicating these results to senior leadership and the Audit Committee of the Board to increase their awareness of cultural issues and issues of substance. As an example of this benchmarking activity, she described that one of the areas the Office tracks is compliance consultations. They perform approximately 80 consultations per year. These range from a quick response to full-scale benchmarking, research or advising. The Office has identified the volume and areas of the consultations over time and reviews for trends. Most of the consultations have been in the areas of research, privacy/information security, records retention, financial, and conflict of interest/commitment. Overall, as illustrated in the chart, the data shows a diverse mix of
compliance categories that were addressed and does not indicate any specific sustained trend or spike in certain compliance categories.

Ms. Drummond ended her presentation with an update on the Ethics and Compliance Reporting and Help Line. There have been a total of fifty-six reports made through March 31, 2014, fifty of which have been closed. Of the open reports, three have been referred to Audit Services, two have been referred to the AA/EO Office and the remaining report has been referred to management.

Referring to the diagrams in her written presentation, Ms. Drummond provided the Committee with a summary of help line statistics. She noted an overall increase in reports to the help line. This is seen as a positive trend because it shows an increase in awareness and may demonstrate a greater level of trust by the reporters. The University’s reporting per 100 employees was approximately .5 for 2013. This is at the low end of the reporting spectrum, with an all-industry median of 1.2 for 2013 as reported by Navex Global. Their report showed the Education category to have fewer reports when compared to most industries. The University’s experience was low when compared to other employers of similar size as the University, 0-5000 employees. This group had a median report rate of 1.5 per 100 employees. An informal survey from colleagues at other higher education institutions averaged 10-30 reports per year. UVM had 17 reports in 2013; this number is in line with peer institutions.

In terms of anonymous vs. self identified reporting, UVM has a somewhat higher than median industry percentage at 73%. This higher percentage appears consistent with the “Educational” segment in Navex Global’s report which ranked Education as 2nd of the 23 industries in the percentage of reports made anonymously. At UVM, while most reporters did not give their name, they often provided their category (staff/management, faculty or student). Half of the reporters self-identified as being in the staff or management category.

Trustee Branagan asked why tracking anonymous vs. self-identified reporters was important. Ms. Drummond responded that: 1) it showed the importance of having an avenue for individuals to make anonymous reports, 2) it may reflect a culture of fear of retaliation, and 3) anonymous reports may have a lower substantiation rate due to the difficulty in following up with anonymous reporters.

At Chair Young’s request, Ms. Drummond briefly explained how anonymous reporters can follow up on the status of a report through the system while remaining anonymous. She also clarified that the help line system cannot identify if the same anonymous reporter is making multiple claims.

To conclude her presentation, Ms. Drummond reported that UVM’s experience, at 56%, reflected a higher percentage of reports that were found to be substantiated or partially substantiated when benchmarked against the Navex Global cross industry experience. She also reviewed the broad range of issues reported to the help line. She noted the locations of the reported activities have remained fairly consistent year over year in the
percent of total reports in each business area. Finally, she reported the average length of time a report at UVM remained open was approximately six months. In the Navex Global Report, the cross industry median was 36 days for 2013; less than 20 percent of UVM’s reports met this benchmark.

Responding to Vice Chair Rocheleau’s question about what the Office has learned from this data analysis, Ms. Drummond noted the potential for improvement in closing reports more quickly. She explained that more analysis would be needed in this area to explore improvements. Additionally, she noted the importance of outreach and incentives for individuals to use the help line. She described a recent example of a phone report received where the reporter indicated he/she would have reported directly to a federal agency had this help line not been available and been communicated through Compliance Services’ annual survey. She added that this data can help the University think about where we can improve and examine cultural issues.

Vice Chair Rocheleau asked if the University’s Compliance program was young compared to its peers. Ms. Drummond responded that it UVM’s program is young compared to some schools, but the number is growing each year. The length of time other institutions have had programs ranges from a year to twenty.

In response to Representative Cimonetti’s question regarding how reporters know that a report has been closed, Ms. Drummond explained that a reference key is provided when a person submits a report. This allows them to log back into the help line system to see if their complaint has been resolved. All reports are closed when completed. Represented Cimonetti commented that this practice is important and encourages participation; Ms. Drummond concurred.

**Grant Thornton Presentation of the FY 2014 External Audit Plan**

Chair Young welcomed Grant Thornton as the University’s new external audit firm. Engagement Partner Claire Esten began Grant Thornton’s presentation to the Committee by introducing herself, Senior Manager Jamie Cote, and Audit Manager Carolyn Warger. Ms. Esten noted another engagement team member, Larry Ladd, who will be discussing higher education industry trends and how they relate to UVM at the July meeting. Chair Young commented that he found Mr. Ladd’s presentation during the request for proposal (RFP) process very enlightening and highly recommended Committee members attend his presentation in July.

Referring to the materials provided in advance to the Committee, Ms. Esten reviewed the audit firm’s responsibilities. She then turned the presentation over to Ms. Warger and Mr. Cote who reviewed the audit approach and methodology, timeline, materiality, and areas of focus for the audit.

Representative Arel asked if Grant Thornton had an opportunity to review KPMG’s work papers and if anything was identified as areas of risk for the audit. Ms. Warger confirmed
this was done in February of 2014. She noted Mr. Cote would be addressing some of the items identified in their review later in their presentation.

Chair Young inquired if Grant Thornton’s work is on schedule. Ms. Esten verified it was.

Chair Young asked if the materiality figure has been set. Ms. Esten responded that a preliminary materiality figure has been set. She noted that because there is no interim full accrual-basis reporting at UVM, Grant Thornton will use last year’s numbers until the current year’s numbers are available. With this information, the materiality figure will be reevaluated.

Moving on, Mr. Cote provided an overview of their eight areas of focus in this year’s audit, based on materiality, audit risk, and inherent risk. One of the highest areas of focus will be investments because of the estimation processes involved. For the OMB Circular A-133 audit, Grant Thornton’s preliminary risk assessment has identified the Medicaid and Research and Development programs for review and has identified the Student Financial Aid and Smith Lever programs as low risk at this point. Finally, Mr. Cote explained how GASB 65 will impact the University’s financial statements.

Ms. Esten asked the Committee if they felt comfortable with the audit approach and if anything should be included in the audit scope at this point. She encouraged the Committee to contact the engagement team with any feedback.

In conclusion, Ms. Esten offered the Committee a list of first-year audit procedures that will not reoccur in future years. These first-year procedures include working with KPMG to understand prior risks, key audit areas, and accounting assumptions, establishing a slightly lower materiality threshold that will impact the scope of their testing and audit adjustments, and performing a baseline review of internal controls, a 100 percent verification of the schedule request, and the creation of a permanent file.

Chair Young thanked Grant Thornton for their presentation and noted that he looked forward to working with them.

**Information Technology (IT) Security and Date Privacy**

Chief Information Officer (CIO) Mara Saule and Information Security Officer (ISO) Dean Williams presented to the Committee. Ms. Saule noted that the presentation was about information security and date privacy in the context of UVM’s Enterprise Risk Management (ERM) program and that a more multifaceted presentation on information security and data privacy will be presented at the September Committee meeting.

Ms. Saule referred the Committee to the information security overview provided with the meeting materials, which was also shared with the Committee of the Whole at the February Board meeting. Ms. Saule continued by providing the Committee with a summary of information security as articulated at the national level focusing on three security principles of confidentiality, integrity, and availability as well as the risks
associated with each principle. She offered that UVM is in good shape in terms of the availability and integrity principles. The confidentiality principle, however, is more complicated as it deals with privacy compliance and regulations and the question “is university information protected as required by law or ethical standards?” Risks associated with privacy include accidental or intentional data breaches, which is the focus of ISO William’s presentation.

Dean Williams continued by offering further examples related to the integrity and availability principles noting these principles as areas over which UVM has a greater degree of control. Regarding confidentiality and intentional or accidental data breaches, ISO William’s noted that the best defense against intentional attacks is to “harden” servers and apply timely security patches. ISO Williams said that accidents are, however, the most common cause of data breaches. Employee education in this area is aimed at attitudes and how to work safely and securely with University information.

Referring to the information security section of the ERM portfolio summary, ISO Williams noted that security is a significant responsibility for both central and distributed Information Technology (IT) staff. Within Enterprise Technology Services (ETS), ongoing information security work includes monitoring networks and systems, patching, internal scanning and penetration testing, reviewing and negotiating vendor contracts, and researching and monitoring emerging global threats and how they relate to higher education and the University. CIO Saule added that free software going directly to faculty and departments is a growing area of concern.

Mr. Williams moved on to offer the Committee an update to management’s plan moving forward. Changes include an active search for a new email and calendar system, implementation of a different technology for encrypting hard drives primarily for laptops, a project extending the multifactor authentication security that protects the Banner student information system to other systems, and addressing challenges posed by personally owned devices, as well as cloud services.

In conclusion, Mr. Williams reviewed the final area of the ERM response plan, estimated “residual risk” after implementing the management plan. He concluded that because of the nature of information security, there will always be new risks and this area will be ongoing.

Ms. Drummond noted that data about human errors is collected and evaluated for trends to determine where resources can be best focused.

At Chair Young’s request, Mr. Williams showed and explained the key fob device used for additional security for the Banner student information system. He also described another less expensive technology that the University is looking into.

Chair Young inquired into how many key fob devices associated with Banner are at the University. Mr. Williams responded that there are approximately 500 to 1000 devices, but will follow-up with the actual number. Representative Coy offered a summary of the
15-minute in-person process she went through to obtain her key fob device. Chair Young commented that this in-person process provides an opportunity for training and education.

Representative Coy commented on the challenges in educating users about maintaining the integrity of information they have access to and why certain security measures are necessary.

Representative Barry asked if the University had looked into the smartphone RSA cryptosystem. Mr. Williams responded that they have looked into the smartphone RSA app but chose to go with the Duo security system. Representative Coy noted that the smartphone app would require employees to own a smartphone.

Vice Chair Rocheleau asked Mr. Williams about the Internet Explorer security flaw that came to light over the weekend and if he had had time to assess the risk to the University. In relation to this, he also inquired into security risks with Windows XP. Mr. Williams noted the ISO team is currently following the advice of the Multi-State Information Sharing and Analysis Center by suggesting staff use an alternate browser. Additionally, he explained that there are only 15 to 20 people on campus still using Windows XP and the ISO team is working with individuals on secure solutions.

**2014 Audit Committee Work Plan Update**

Chief Internal Auditor Bill Harrison provided the Committee with updates to the 2014 Audit Committee Work Plan. The ERM risk and opportunity portfolio update planned for the September meeting will be moved to November. Additionally, the Audit and Compliance Services work plans will be presented at the November meeting. As mentioned earlier in the meeting, there will be another IT Security and Data Privacy presentation at the September meeting. Finally, Mr. Harrison reminded the Committee about the next ERM presentation about resources for research compliance at the July meeting.

Responding to Vice Chair Rocheleau’s question about a progress report on emergency management and business continuity, Chair Young noted an update is planned for the September meeting.

Chair Young also noted he was looking for follow up on complimentary sports tickets and emergency planning with the City of Burlington within six months. Due to timing of year-end procedures, Vice President Cate determined that an update on the benefits reconciliation process would be presented at the September meeting.

**Other Business**

At 11:42 a.m., a motion was made, seconded and approved to go into executive session for the purpose of discussing civil actions, information the disclosure of which would threaten the safety of persons or the security of public property, personnel matters, and to
receive the advice of Counsel. All in attendance were excused from the meeting, with the exception of Trustees, President Tom Sullivan, Vice President and General Counsel Francine Bazluke, Interim Vice President for Research John Evans, Vice President for Human Resources, Diversity and Multicultural Affairs Wanda Heading-Grant, Chief Internal Auditor William Harrison, and Chief Compliance and Privacy Officer Anna Drummond. Interim Vice President for Research John Evans, and Chief Compliance and Privacy Officer Anna Drummond were excused after the first agenda item.

**Adjournment**

The meeting was re-opened to the public at 12:16 p.m.

Coming out of executive session, Trustee Branagan asked who was responsible for ensuring that all University employees receive a performance evaluation annually. President Sullivan responded that performance evaluation process is a management responsibility.

Trustee Rocheleau inquired into the Committee having one-on-one executive session discussions with the University’s external auditors, considering the requirements of the Vermont Open Meeting Law. Vice President Bazluke responded that the justification for going into executive session would need to be reviewed on an issue by issue basis. Finally, President Sullivan also noted Grant Thornton’s planned presentation on national issues affecting higher education as a good practice and very helpful.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair