A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on November 10, 2014, at 10:00 a.m. in the Waterman Building, Memorial Lounge.

MEMBERS PRESENT: Chair Mark Young, Vice Chair Dale Rocheleau, Carolyn Branagan, Samantha Lucas*, Ron Lumbra**, and David Potter*

MEMBER ABSENT: Jeff Wilson

REPRESENTATIVES PRESENT: Faculty Representative Barbara Arel, Student Representative Elizabeth MacNeil, and Douglas Hoffer, Vermont State Auditor.

REPRESENTATIVES ABSENT: Staff Representative Wendy Coy, Graduate Student Representative Jarett Chizick, Alumni Representative (appointment pending)

PERSONS ALSO PARTICIPATING: President Tom Sullivan, Vice President for Legal Affairs and General Counsel Fran Bazlueke, Dean of the College of Medicine Rick Morin***, Vice President for Finance and Treasurer Richard Cate, Chief Internal Auditor William Harrison, University Controller Claire Burlingham, Chief Risk Officer Al Turgeon, Information Security Officer Dean Williams, and Claire Esten, Carolyn Warger, and Scott Woznicki of Grant Thornton.

* Participated via teleconference call
** Participated via teleconference call and departed the meeting at 11:00 a.m.
*** Participated via teleconference call, joined the meeting at 10:20 a.m. and departed at 11:25 a.m.

Chair Mark Young called the meeting to order at 10:03 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the September 15, 2014, meeting minutes.


Vice President for Finance and Treasurer Richard Cate began the presentation by thanking his team for their work with the new external audit firm Grant Thornton.

Vice President Cate turned the presentation over to University Controller Claire Burlingham. Ms. Burlingham noted the FY 2014 draft Annual Financial Report had been provided in advance for the Committee’s review. She reported on November 7, 2014, the University received an unqualified audit opinion for the FY 2014 Financial Report.
With this being Grant Thornton’s first year auditing the University’s financial statements, Ms. Burlingham commented on the learning process and adjustments in transitioning to a new external audit firm. She thanked her team for their work on the financial statements.

Referring to her Annual Financial Report Highlights Fiscal Year 2014 handout, Ms. Burlingham provided the Committee with an overview of the required financial statements and supplemental information, the University’s FY 2014 financial position, significant line items in the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, and the breakdown of FY 2014 revenues, expenses, and operating expenses.

Following up on her prior Governmental Accounting Standards Board (GASB) 65 updates, Ms. Burlingham explained the impact of the implementation of GASB 65 on the financial statements.

Chair Young expressed concern that the “loss of refunding of debt” stated in the financial statements will be misinterpreted as a loss rather than a money saving measure. Ms. Burlingham explained this is standard accounting terminology and noted the financial statement footnote that clarifies and defines this language.

Referring to the University’s investment agreement with the UVM Foundation and how the 90-day callback obligation is represented as a liability within the financial statements, Vice Chair Rocheleau asked if this would continue year after year. Ms. Burlingham responded that it would increase each year due to the increased investment on the part of the Foundation in the pooled endowment. The plan is to grow the Foundation’s funds until they can invest in their own-pooled endowment. She further explained that these assets are also included in the University’s assets. Vice President Cate noted a provision in the agreement with the Foundation whereby the callback cannot be done in such a way as to financially disadvantage the University.

Chair Young commented that the University would be aware of when the Foundation was ready to create their own endowment and would be able to prepare for the 90-day callback.

Chair Young asked if the one-time payment to the Foundation in November of 2013 took care of the assumed post-retirement benefits. Ms. Burlingham and Vice President Cate confirmed that the University is clear of everything.

Trustee Branagan commented that one of the University’s goals is to be one of the best small research institutions. She asked if Ms. Burlingham’s diagram of operating expenses by functional classification reflected the decrease in Federal research money available. Ms. Burlingham confirmed that it did and that the University is not able to collect as much research money because there is not as much available. Trustee Branagan remarked that though troublesome, it is not within the University’s control.

In response to Vice Chair Rocheleau’s question, Ms. Burlingham clarified that the University’s auxiliary enterprises include the Bookstore, Print and Mail, CATcard Service Center, residence halls, and dining services.
Grant Thornton’s Report to the Audit Committee

Claire Esten, of Grant Thornton, provided the Committee with a presentation of the audited FY 2014 financial statements. Overall, Ms. Esten was pleased with the audit process and results. She provided positive feedback on the University’s controls, discipline around the adherence to policies within the University, and diligence about the close process.

Ms. Esten moved on to introduce audit manager Carolyn Warger and Scott Woznicki who was responsible for the evaluation of controls over information technology (IT). She turned the presentation over to Ms. Warger who reviewed the major areas of significant focus. These areas included:

- Grant revenue
- Tuition and fees revenue, auxiliary enterprises and related receivable/deferred revenue
- Investments and related returns
- Split interest agreements
- Debt and related interest expense
- Capital assets

Grant Thornton identified six audit adjustments. Only two rose to the level of a control deficiency and included timeliness of recognition of certain activities and accounting for certain split interest agreements.

Ms. Esten noted Grant Thornton’s materiality levels during the first year of an engagement are typically lower than subsequent years. Some of the adjustments noted this year would not be reported when the materiality threshold increases.

When asked by Vice Chair Rocheleau what the materiality level was, Ms. Esten responded the gross materiality threshold was set at approximately $9 million. If an aggregated adjustment above $9 million is not recorded, the financials would be materially misrepresented. Lower level adjustments are tracked to ensure the aggregate is not more than $9 million. A summary of the University’s unrecorded financial statement misstatements was included in appendix A of Grant Thornton’s materials provided in advance to the Committee.

At Vice Chairs Rocheleau’s request, Ms. Esten explained the difference between a material weakness and a significant deficiency. Ms. Esten did not consider any of the unrecorded misstatements to be a material weakness however, they were considered significant deficiencies and important enough to merit attention by those charged with governance.

Next, Mr. Woznicki described Grant Thornton’s IT assessment. They looked at the framework of the PeopleSoft and Banner systems. In addition, they reviewed the areas of security administration, new system implementation, application controls, and program execution. The audit resulted in eight observations that were communicated to management.

Vice Chair Rocheleau questioned who at the University was responsible for communicating management’s responses to the IT observations. Mr. Woznicki responded that Chief Information
Officer and Dean of University Libraries Mara Saule and Associate Chief Information Officer Julia Russell managed the responses.

Referring to the IT observations, Vice Chair Rocheleau commented that a number of management’s responses cited a lack of resources as the reason for not moving forward. Ms. Esten acknowledged the University has limited resources and suggested careful consideration when mitigating the observations. She noted Grant Thornton would continue to bring unaddressed observations forward and would recognize any progress toward remediation.

Representative Arel inquired whether any of the IT observations were considered higher risk and were brought to the University’s Enterprise Risk Management (ERM) group. Ms. Esten explained that nothing rose to the level of being a significant deficiency. All the observations were classified as control deficiencies, the lowest level of reporting. Ms. Esten further explained that the list of observations is common among public universities. Mr. Woznicki added that the observations are typically listed in order of importance.

Representative Arel asked if there was anything the University’s internal audit office could do to create a more efficient audit for the external auditors. Ms. Esten explained that internal audit offices work to address institutional risks outside of the scope of the financial statements. Mr. Harrison commented he had talked to other universities about this topic and found there were typically mixed results in terms of efficiency and there was often no real cost savings using this approach. Claire Esten said that Grant Thornton would continue to explore this option.

Chair Young asked if the University is able to recognize the income from charitable remainder trusts. Ms. Esten answered yes and explained the accounting.

Vice Chair Rocheleau recognized that the University’s prior external auditors had a different interpretation of the accounting practices for charitable remainder trusts.

Ms. Esten moved on to provide the Committee with a status update on the A-133 audit. No compliance findings have been identified to date. One control finding was identified related to the timeliness of the review of expenditures of the Global Commitment program. This finding will be reported as a significant deficiency in controls over compliance and is being addressed by management.

At Vice Chair Rocheleau’s request, Ms. Esten explained the outcome of the University’s practice of reporting investments at cost rather than fair market value. The investments were reported at a cost of $60 million while the fair market value was approximately $73 million. Vice President Cate noted this was a more conservative approach to reporting the University’s investments.

At the conclusion of her presentation, Ms. Esten noted that they have issued their opinion on the financial statements, and if there were no changes from the Committee, Grant Thornton could now issue its internal control letter as soon as possible. In addition, she will be seeking feedback from management and the Audit Committee about the FY 2014 audit process.
Recommendation of the FY 2014 Audited Financial Statements to the Board of Trustees for Acceptance

Chair Young presented an amended resolution recommending the FY 2014 Audited Financial Statements to the Board of Trustees for acceptance. Mr. Harrison noted the update was the same correction made last year clarifying that the external audit firm audits the financial statements, not the books and accounts.

The following resolution was presented for approval reflecting the proposed amendment:

**Acceptance of Fiscal Year 2014 Audited Financial Statements**

WHEREAS, the books and accounts–financial statements of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2014, have been audited by Grant Thornton LLP, Certified Public Accountants, and the report of the audit has been published 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 2014 Audited Financial Statements.

A motion was made and seconded to approve the resolution as revised.

The Chair opened the resolution to discussion. Vice Chair Rocheleau questioned whether the financial statements had been published as stated in the resolution. A conversation followed about the definition of the term “publish” and whether the financial statements had been published. The Committee tabled the discussion to allow General Counsel time to review the State statute for clarification.

**Enterprise Risk Management (ERM) Update**

Chief Risk Officer Al Turgeon began by remarking on the continued positive trend in the attitudes of senior management and mid-level managers regarding enterprise risk. He described the University as being more willing to take on prudent risk. Mr. Turgeon attributes this to the fact that the University has an ERM program and a formal risk assessment process.

While explaining the 2014 risk assessment process, Mr. Turgeon responded to Vice Chair Rocheleau’s question posed during Grant Thornton’s presentation by describing how he could include the external audit firm in the assessment process.

Moving on, Mr. Turgeon reviewed the 2014 annual risk assessment results depicted in the UVM Risk-Opportunity Portfolio-Register heat map. He noted modest changes to the portfolio-register compared to 2013. At the portfolio level, two opportunities were added in 2014, one risk was moved to the register, and two risks were combined with other portfolio risks or opportunities.

Mr. Turgeon clarified for Vice Chair Rocheleau that the risk inventory includes all of the risks that have received an evaluation.
In conclusion, Mr. Turgeon reviewed the FY 2015 responsible official’s management response plan presentation schedule. This schedule was designed to ensure responsible officials update their assigned Board of Trustee committees on their respective portfolio level risk and opportunities.

Vice Chair Rocheleau commented on how rapidly the ERM program has matured in just a few of years. As a trustee, he feels comfortable that the University is focused on the right risks and opportunities because of its very robust process. He thanked Mr. Turgeon and everyone involved in the ERM process.

Chair Young also thanked the Director of Risk Management and Safety Mary Dewey and Assistant Director of Compliance Services Erica Heffner for their effort in the ERM process.

Recommendation of the FY 2014 Audited Financial Statements to the Board of Trustees for Acceptance (Continued)

With the guidance of Vice President for Legal Affairs and General Counsel Fran Bazluke the Committee reviewed the applicable State statute which currently does not make reference to publication issuance. The Committee agreed to change the wording of the resolution from “the audit has been published” to “the audit will be published”.

At the end of this discussion, a motion was made, seconded and was unanimously voted to approve the amendment to the resolution.

The following amended resolution was presented for approval:

Acceptance of Fiscal Year 2014 Audited Financial Statements

WHEREAS, the books and accounts, financial Statements of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2014, have been audited by Grant Thornton LLP, Certified Public Accountants, and the report of the audit has been will be 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 2014 Audited Financial Statements.

A motion was made, seconded and the following roll-call vote was taken voting on the resolution: Mark Young – Yes, Dale Rocheleau – Yes, Carolyn Branagan – Yes, Samantha Lucas – Yes, and David Potter – Yes. The amended resolution was approved.

Information Security Officer Update

Information Security Officer (ISO) Dean Williams began his report to the Committee with an update on the University’s compliance with Payment Card Industry Data Security Standards (PCI DSS) requirements. The University has 38 merchants in 23 departments that accept payments by credit card. As of October 22, 2014, 32 merchants, representing 46% of sales by
dollar volume and 30% of overall transactions, have passed or renewed their annual self-assessment questionnaires (SAQs). At this time, the 11 merchants required to undergo quarterly external vulnerability scans have passed their scans. The Controller’s Office continues to remind merchants to complete or renew their SAQs. Both the Controller’s Office and the Information Security Operations (ISO) team continue to offer assistance to merchants so that they may be compliant with the PCI DSS standards.

Mr. Williams moved on to discuss phishing attacks. He explained that phishing attacks are on the rise across higher education. Phishing attacks at UVM have more than doubled in the months of August and September as compared to the same months last year. He further explained the importance of quickly detecting compromised credentials and the University’s procedure for responding to phishing attacks.

In conclusion, Mr. Williams offered the Committee an update on the information security operations education efforts. Of note, the ISO team, in collaboration with Residential Life, is currently working on a scavenger hunt that will challenge and reward students as they learn about information security and how to protect themselves.

Chief Internal Auditor Update and Audit and Compliance Work Plan

Prior to Mr. Harrison’s presentation, Vice President Bazluke offered the Committee the legislative history pertaining to the statue referenced in the financial statements resolution. She confirmed that in 2008, the requirement of publication in detail had been deleted and there is no requirement for publication of the financial statements.

Chief Internal Auditor William Harrison provided a brief summary of the audits listed in his written status report. The Office of Audit Services (OAS) has issued two reports in FY 2015 and two memorandums resulting from work performed during two EthicsPoint reviews.

Moving on, Mr. Harrison updated the Committee on the recruitment for the Director of Compliance Services position. Over the next few months, Mr. Harrison will be establishing a search committee to review the applicants and interview candidates. Answering Chair Young’s question, he reported 14 applications had been received as of early November. The pool of candidates are from all over the country.

Next, Mr. Harrison reviewed the FY 2014 Audit Plan. Of the internal audits proposed last year, three were completed and six are in process. In addition, work related to four planned projects was added to other existing work. He noted the Office did not begin a planned audit of supplemental compensation as the Office plans to incorporate this topic into their departmental review process.

Mr. Harrison concluded his presentation with a summary of the FY 2015 Audit and Compliance Work Plan. He offered the Committee a brief overview of the methodology used to create the work plan. He noted his Offices’ work with the Chief Risk Officer and the direct correlation between the audit and compliance work plan projects and the ERM risk and opportunity portfolio-register.
Mr. Harrison agreed with Vice Chair Rocheleau’s remarks about the OAS benefiting from its involvement in the ERM process.

**Review the 2014 and 2015 Audit Committee Work Plans**

Mr. Harrison reviewed the 2014 Audit Committee Work Plan noting the addition of the ERM management response plan presentations. The 2015 Work Plan is analogous to the 2014 plan.

Vice Chair Rocheleau commented that a lot of material is covered in the November meeting and recommended moving the ERM risk and opportunity portfolio update so that the Committee could concentrate on the presentation of the annual financial report and the external audit firm’s report. Mr. Turgeon offered to move his report to the February meeting.

**Other Business**

Chair Young reminded the Trustees of the Audit Committee assessment survey that will be distributed after the meeting.

Chair Young thanked Claire Esten, Carolyn Warger, and Scott Woznicki of Grant Thornton for their presentation as well as Vice President Cate and Controller Burlingham for their work in the financial statements. He noted that the Committee expected that a change in auditors would result in more information and comments than in past years and did not expect the financial statement audit to be clean during the first year with a new external audit firm. Before adjourning, he thanked State Auditor Doug Hoffer for attending the meeting.

**Adjournment**

There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair