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 February 5, 2015, at 2:00 p.m. in the Livak Ballroom, Room 417-419 Dudley H. Davis Center.

MEMBERS PRESENT: Chair Mark Young, Vice Chair Dale Rocheleau, Samantha Lucas, Ron Lumbra, David Potter, and Jeff Wilson

MEMBER ABSENT: Carolyn Branagan

REPRESENTATIVES PRESENT: Faculty Representative Barbara Arel*, Staff Representative Wendy Coy, Student Representative Elizabeth MacNeill and Graduate Student Representative Jarett Chizick**

REPRESENTATIVES ABSENT: Vermont State Auditor Douglas Hoffer, and Alumni Representative (appointment pending)

PERSONS ALSO PARTICIPATING: President Tom Sullivan, Vice President for Legal Affairs and General Counsel Fran Bazluke, Vice President for Finance and Treasurer Richard Cate, Chief Internal Auditor William Harrison, University Controller Claire Burlingham, Associate Vice President for Research Administration Jennifer Gagnon, Assistant Director of Compliance Services Erica Heffner, and Claire Esten of Grant Thornton

*Joined the meeting at 2:30 p.m.
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Chair Mark Young called the meeting to order at 2:00 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the November 10, 2014, meeting minutes.

Presentation of the National Collegiate Athletic Association Agreed-Upon Procedures (NCAA AUP) Report

Claire Esten, of Grant Thornton, presented the results of the report noting that NCAA regulations contain specific minimum agreed upon procedures for athletics revenues, expenses, and internal controls. The final report is addressed to the UVM President and is not filed with the NCAA. In the report, Grant Thornton noted no significant adjustments.
Presentation of the FY 2014 Office of Management and Budget (OMB) Circular A-133 Audit Report

Ms. Esten provided the Committee with a summary of the FY 2014 OMB Circular A-133 audit report. The two major federal programs tested included the Research and Development and the Medicaid Clusters. She explained the report focuses on two major areas: internal controls over compliance and compliance with the requirements outlined by the OMB Circular A-133.

The results of the audit included one internal control over compliance related to the timeliness of the review of expenditures connected to the Global Commitment program. In addition, there were two significant deficiencies related to internal control over financial reporting. These included accounting for certain split interest agreements and the timeliness of recognition of certain activities. Ms. Esten explained the two deficiencies were the same ones identified in the financial statement audit and reported again as required in the A-133 report.

At Vice President for Finance and Treasurer Richard Cate’s request, Ms. Esten explained the three classifications of reportable items as they relate to internal controls and their thresholds. Ms. Esten further explained that it is common for organizations to have significant deficiencies because of the low threshold for classifying these items. Consequently, the deficiencies are very unlikely to raise any red flags. Mr. Cate assured the Committee that steps had been taken to address the deficiencies in the report.

Chair Young noted the summary of the auditor’s results found in the OMB Circular A-133 report. Also referring to the summary, Ms. Burlingham pointed out that the University still qualified as a low-risk auditee. Chair Young commented further on the meaning of this classification. Ms. Esten explained the reported significant deficiencies are not substantial enough to move the University out of the low-risk auditee category.

Chair Young commented that the results were not surprising and he expected a new audit firm to identify new issues during their first year.

At Vice Chair Rocheleau’s request, Ms. Esten described the difference between Type A and Type B programs as they relate to major Federal programs. The Research and Development and the Medicaid clusters picked for the FY 2014 audit were Type A programs because they were over the $3 million threshold established by the Circular for Type A programs.

Compliance Update

Assistant Director of Compliance Services Erica Heffner offered the Committee an update on the Compliance program and work plan activity since the Office’s last report in September 2014.

Ms. Heffner began by reviewing work plan efforts in six areas: (1) OMB Uniform Guidance, (2) export controls, (3) Patient Protection and Affordable Care Act (PPACA), (4) employment issues, (5) the Code of Business Conduct project, and (6) the Compliance Calendar.

As background, Ms. Heffner reminded the Committee that OMB Uniform Guidance was a Governmental initiative to combine eight circulars into one, making the guidance for the
administrative requirements for Federal grants consistent among all agencies. To prepare for implementing the new guidance, the University formed a Uniform Guidance steering committee led by University Controller Claire Burlingham and Associate Vice President for Research Administration Jennifer Gagnon. Ms. Heffner noted Ms. Burlingham and Ms. Gagnon would provide a more detailed update on the implementation of this guidance at the end of her presentation.

In the area of export controls, Ms. Heffner explained the University’s practice of not accepting research with publication restrictions allowed it to take advantage of the fundamental research exclusion from export controls. However, other activities occur on campus that fall under the export control rules and for this reason, an expert in the field has been retained to develop educational materials and compliance tools for the University.

Moving on, Ms. Heffner reviewed the Office’s work on the PPACA. As of January 1, 2015, the University was required to offer healthcare coverage to 70% of its full time employees, as defined under the Act. To date, thirteen of the approximately two hundred individuals identified and offered coverage have signed up. The additional cost to the University for this coverage is approximately $100,000 for calendar year 2015.

Ms. Heffner ended her presentation with a summary of the results of the fifth annual compliance awareness survey. The purpose of the compliance survey is to create and measure awareness of the Office of Compliance Services, the Code of Business Conduct as well as to create a snapshot of the University’s “culture of compliance”. The results showed similar or slightly decreased awareness and cultural measures from the prior year. The reason for this slight dip is not clear but two factors that may have contributed are the high retiree experienced this past year and the drop in participation by management. In response to the survey results, the Compliance Office has launched a compliance newsletter to create awareness and promote a culture of compliance and is working on an initiative to overhaul the Code of Business Conduct.

In response to Chair Young’s question about the Compliance Calendar, Ms. Heffner explained that it was relatively new and used to list deadlines for regulatory requirements. Vice President for Legal Affairs and General Counsel Fran Bazluke commented on the calendars development. Minimally, the University hopes to use the calendars to show agencies it is attempting to comply with the University’s reporting obligations. Chair Young added that he felt this was a great process and a good tool to ensure nothing slipped through the cracks.

Ms. Heffner turned the presentation over to University Controller Claire Burlingham and Associate Vice President for Research Administration Jennifer Gagnon to provide the Committee with an update on the University’s Uniform Guidance compliance plan. Ms. Burlingham began with a summary of the steering committee’s preparations and implementation process. Ms. Gagnon explained the changes had some positive benefits but had also increased the administrative burden. She reviewed the significant revisions made to University policy and process changes within Sponsored Projects Administration. She also described the substantial changes to procurement standards that will go into effect July 1, 2016. In conclusion, Mr. Cate commented on how the procurement standard requiring purchases over $3,000 go through a competitive bidding process would be a big culture change for the University’s researchers.
Chair Young asked if purchasing would be more distributed under Incentive Based Budgeting (IBB). Mr. Cate responded that the goal was to have more managed purchasing to ensure compliance. Ms. Burlingham added that Procurement Services was looking into consortiums to take advantage of the University’s purchasing power and pricing.

Ms. Burlingham confirmed for Chair Young that the consortiums would have to show proof of a competitive bid process in order for the University to meet OMB Uniform Guidance requirements.

President Sullivan asked Ms. Gagnon and Ms. Burlingham if they would be providing training and education to faculty and staff. In response, Ms. Gagnon described their education and outreach efforts. President Sullivan urged them to be as proactive and personal as possible in their education and outreach efforts.

Addressing Chair Young, President Sullivan offered the changes in OMG Uniform Guidance as an example of the enormous increase in State and Federal regulations the University is required to follow. The President puts the cost of all regulation in the top five of all the costs at the University. These mandates create a huge unrecognized financial burden and for this reason, he is initiating an effort to measure the cost of regulation. Ms. Gagnon noted the Counsel on Government relations is tracking the administrative work associated with implementing the Uniform Guidance and may help with this initiative.

Chair Young expressed concerns about procurement consortiums negatively affecting the University’s ability to do business locally. Ms. Burlingham responded that most of the University’s business is within the New England region. Ms. Heffner commented that the new guidance prohibits regional preferences in purchasing decisions.

**Report on the Results of the 2014 Audit Committee Assessment Survey**

Chief Internal Auditor Bill Harrison reported on the results of the Audit Committee survey conducted in November 2014. Overall, the survey participants agreed that the Committee performed effectively. Mr. Harrison highlighted responses to six of the survey questions where there was some variation in the responses. To address some of the concerns identified in the survey, Mr. Harrison is planning: (1) an in-person orientation session for Committee members prior to the April meeting, (2) providing Committee members with relevant information between meetings and working with the Committee Chair and the President to discuss a process for assessing the effectiveness of Audit and Compliance Services, and (3) a presentation showing how the University’s audit and compliance programs compare with their peers.
Review the 2015 Audit Committee Work Plans

At the November 2014 meeting, a recommendation was made to revise the 2015 Audit Committee Work Plan to allow the Committee more time to focus on the presentation of the annual financial statement audit. Mr. Harrison reviewed the following three revisions to the 2015 Work Plan:

1. The presentation of the external audit engagement plan was added to the April meeting.
2. The presentation of the external audit information technology (IT) observations was moved to the September meeting.
3. The Enterprise Risk Management (ERM) risk and opportunity portfolio update was moved to the February 2016 meeting to coincide with the full Board meeting.

Vice Chair Rocheleau agreed with, and thanked, Mr. Harrison for making the work plan revisions.

Other Business

Chair Young thanked departing Trustees David Potter and Carolyn Branagan and all the members of the Audit Committee for their service. As the departing Chair, he thanked all those who supported him in this role. In conclusion, he thanked Bill Harrison and Amy Vile for their assistance.

Vice Chair Rocheleau led the Committee in acknowledging and honoring Chair Young for his service and leadership.

At 3:06 p.m., a motion was made, seconded and approved to go into executive session the purpose of discussing civil actions, contracts, and the evaluation of public officers or employees, premature general public knowledge of which would clearly place the University at a substantial disadvantage. All in attendance were excused from the meeting, with the exception of Trustees, President Tom Sullivan, Vice President and General Counsel Francine Bazlute, Chief Internal Auditor William Harrison, and Assistant Director of Compliance Services Erica Heffner. For the second item, Chief Internal Auditor William Harrison, and Assistant Director of Compliance Services Erica Heffner were excused and Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, and Associate Vice President for Research Jennifer Gagnon joined the meeting. For the final agenda item, Vice President for Finance and Treasurer Richard Cate, University Controller Claire Burlingham, and Associate Vice President for Research Jennifer Gagnon were excused and Claire Esten of Grant Thornton was invited to join the meeting.

Adjournment

The meeting was re-opened to the public at 4:25 p.m.

There being no further business, the meeting was adjourned.

Respectfully submitted,
Mark Young, Chair