A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on July 13, 2015, at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Dale Rocheleau, David Brandt, Bernard Juskiewicz, Ron Lumbra*, and Donald McCree*

MEMBER ABSENT: Vice Chair Jeff Wilson and Ed Pagano

REPRESENTATIVES PRESENT: Tanya Morehouse of the State Auditor’s Office, Faculty Representative Barbara Arel, Staff Representative Wendy Coy, and Graduate Student Representative Adam Nock

REPRESENTATIVES ABSENT: Vermont State Auditor Douglas Hoffer, Student Representative Roger DaGama, 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, Vice President for Executive Operations Gary Derr, Vice President for Research Richard Galbraith, Chief Internal Auditor William Harrison, Chief Information Officer and Dean of University Libraries Mara Saule, Associate Vice President for Research Administration Jennifer Gagnon, Director of Compliance Services Tessa Lucey, Associate Chief Information Officer Julia Russell, Assistant Director of Compliance Services Erica Heffner, and Claire Esten and Larry Ladd of Grant Thornton

* Participated via teleconference call.

Chair Rocheleau called the meeting to order at 10:05 a.m. He began by welcoming Graduate Student Representative Adam Nock and Director of Compliance Services Tessa Lucey to their first Audit Committee meeting.

Approval of Minutes

A motion was made, seconded and voted to approve the April 27, 2015, meeting minutes.

Grant Thornton FY 2015 Financial Statement/A-133 Update

Claire Esten, of Grant Thornton, provided the status report on the FY 2015 Financial Statement and A-133 audits. Planning and interim procedures for the Financial Statement audit are substantially complete. The information technology (IT) audit is ninety-percent complete; the results will be presented at the September meeting.
Concerning the A-133 audit, Ms. Esten explained that Research and Development was selected as a major program. Interim testing is complete and reviews are in process, and so far, no issues have been identified. Final end of year testing will be completed in November and a status update will be provided to the Committee at the November meeting.

Ms. Esten turned the presentation over to Grant Thornton’s Director of National Higher Education Practice, Larry Ladd. Mr. Ladd provided the Committee with an overview of issues in higher education. He noted Moody’s Investors Services Public University FY 2014 Medians Highlight Sector Differentiation report continued its negative outlook for the higher education sector but noted higher education’s improving financial conditions. He concluded the presentation with a discussion about higher education’s new focus on tracking performance and measuring outcomes.

Chair Rocheleau invited President Sullivan and Vice President for Finance and Treasurer Richard Cate to comment on Grant Thornton’s State of Higher Education in 2015 report. President Sullivan responded that the University was on track with its incentive based budgeting (IBB) model and that UVM’s Board of Trustees has a history of utilizing dashboard input and output measures as the benchmark for how well we are doing. Finally, contrary to the report, Vermont was not one of the approximately 36 states choosing to increase higher education funding. This year, as in recent years, the University has been flat-funded again.

Trustee Ron Lumbra asked President Sullivan if he had noticed any changes in the profile of donors as suggested in Grant Thornton’s State of Higher Education document. President Sullivan explained he has not and further commented on recent alumni giving and the elements of the University’s comprehensive campaign, to be publically launched in October.

Chair Rocheleau commented on the State of Higher Education report’s focus on sustainability and correlated this to the University’s efforts to evaluate the performance of its assets. President Sullivan pointed out the University’s enterprise risk management efforts and how this has helped to align investment decisions with prioritization of the University’s budget.

Vice President Cate prompted a discussion about the relationship between universities and their foundations and how rating agencies and others view this relationship. Claire Esten and Larry Ladd, of Grant Thornton, commented that for UVM, the entities are presented next to each other in the financial report, and that sophisticated readers understand these relationships. President Sullivan clarified that like UVM, a majority of institutions that have long-standing foundations have external private Foundations, the UVM Foundation exists solely to raise funds to support UVM, and finally, it is the UVM Board of Trustees that sets the parameters and makes investment decisions for all funds, including the UVM Foundation.

**Resources for Research Compliance Update**

Vice President for Research Richard Galbraith and Associate Vice President for Research Administration Jennifer Gagnon provided a presentation on the Enterprise Risk Management (ERM) portfolio item: Resources to meet increased and complex compliance requirements for sponsored projects and research. Dr. Galbraith provided an overview of the mission of the Office of the Vice President for Research (OVPR), the lifecycle of a sponsored project, the
annual volume of proposals handled by the office, and a summary of the three primary regulated activities for research.

Each year, the University submits approximately 1200 proposals, accepts 700 new and continuing awards, and manages 1400 active awards. Regulated research activities involve human subjects (approximately 1500 protocols), vertebrate animals (approximately 250 protocols) and biohazardous materials (approximately 150 protocols) and are sponsored both internally and externally.

Trustee Don McCree asked if compliance requirements are unique to each award and if the magnitude of the requirements is considered when applying or accepting grants. Dr. Galbraith explained that while each funding source determines the requirements the University must meet, there are generally some common elements and overarching Federal compliance requirements. Even with complex compliance obligations, the University is very unlikely to turn down grant opportunities.

Responding to Chair Rocheleau’s questions, Dr. Galbraith explained that Principal Investigators (PI) are generally responsible for developing proposals; however, the Sponsored Project Administration provides support with this process to ensure compliance with the growing number of rules and regulations and provides support with the administrative burden of proposals, allowing PIs to focus on the research, service and instructional sections of the proposal. In the end, grants are awarded to the University, not an individual.

To conclude the presentation, Associate Vice President for Research Administration Jennifer Gagnon discussed the reputational, financial, legal, and external audit risks inherent in the administration of sponsored research. The University does a good job managing these risks despite the growing complexity and number of regulations. As a result, the University is considered a low-risk auditee and has had no recent A-133 or external audit findings related to sponsored projects.

Referring to the OVPR’s recent risk mitigation initiatives, Trustee David Brandt questioned if there had been a decrease in PI non-compliance. Ms. Gagnon confirmed there has been a reduction in non-compliance and attributed this to the measures that began in 2007 and 2008 and have continued to increase risk mitigation strategies.

President Sullivan inquired as to the cost of compliance with Federal and State research regulatory requirements. While there is not an absolute amount, Dr. Galbraith responded that the total cost of running the Research Protections Office (approximately $1.1 million) and a significant portion of the Sponsored Project Administration’s operating budget are spent on compliance-related activities. He noted that 1.2 full time equivalents (FTEs) were spent on Uniform Guidance compliance. The office will continue to track the additional time required to comply with the continual increase in requirements. President Sullivan emphasized that the increasing number of mandated Federal and State requirements are costs that the University cannot control and that these expenses are allocated to units under the IBB model.

Chair Rocheleau inquired into how the research community is responding to the continual increase in requirements and if there are related associations helping with the issue. Dr.
Galbraith explained the research community’s frustrations with the increase in regulatory oversight without additional funding and that there currently is no single organization that offers comprehensive guidance.

Chair Rocheleau asked how much training was being developed by the OVPR. Dr. Galbraith responded that most of it has been done in house and emphasized the need to create a culture of compliance.

To help understand the return on the University’s investment, President Sullivan asked how much the University subsidizes sponsored research. Vice President Cate offered to provide these figures. Mr. Cate also reminded the Committee that university research is not intended to make money; the value is seen through reputation and academic achievement. Dr. Galbraith noted that he recalled the University’s direct subsidy was approximately six percent of the total awards 8 or 9 years ago.

**Compliance Update**

Tessa Lucey began her presentation by introducing herself as the University’s new Director of Compliance Services. She brings 17 years of compliance program experience and is certified in compliance and privacy. She also holds a Masters in Healthcare Administration.

Ms. Lucey moved on to offer the Committee an update on the Compliance program and work plan activity since the Office’s last report in February 2015. She highlighted work in the areas of Office of Management and Budget (OMB) Uniform Guidance, export controls, the Patient Protection and Affordable Care Act (PPACA), and Americans with Disabilities Act (ADA) distance education compliance.

Next, Ms. Lucey reviewed the University’s Ethics and Compliance Reporting and Help Line benchmarks. She explained that the prevalent issues reported at the University were common among all industries. She would like to look further into the University’s practice of directly entering reports into the system and its impact on the percentage of substantiated reports. In addition, she would like to focus on reducing the median days a report is open.

Staff Representative Wendy Coy asked if anything was being done to help reporters feel more comfortable identifying themselves. Ms. Lucey discussed creating a culture of compliance and building confidence in the University’s non-retaliation policies as a way to decrease the number of anonymous reports. Assistant Director of Compliance Services Erica Heffner added that the Office’s spring newsletter addressed the topic of retaliation.

In response to Chair Rocheleau’s question about what has surprised her the most since joining the University, Ms. Lucey commented that she was pleased with maturity of the University’s compliance program as compared to other universities as well as existence of an ERM program.

In conclusion, Chair Rocheleau thanked Ms. Heffner for her service as acting Director of Compliance Services.
Other Business

At 11:15 a.m., a motion was made, seconded and approved to go into executive session for 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 the Trustees, President Tom Sullivan, Vice President for Legal Affairs and General Counsel Fran Bazluke, Vice President for Executive Operations Gary Derr, Chief Internal Auditor William Harrison, Director of Compliance Services Tessa Lucey, and Assistant Director of Compliance Services Erica Heffner.

For the second item, Vice President for Executive Operations Gary Derr, Director of Compliance Services Tessa Lucey, and Assistant Director of Compliance Services Erica Heffner were excused and Vice President for Finance and Treasurer Richard Cate, Chief Information Officer and Dean of University Libraries Mara Saule, Associate Vice President for Research Administration Jennifer Gagnon, and Associate Chief Information Officer Julia Russell joined the meeting.

For the third item, all in attendance were excused, with the exception of the Trustees and Chief Internal Auditor William Harrison and Claire Esten of Grant Thornton joined the meeting.

For the final item, Chief Internal Auditor William Harrison and Claire Esten of Grant Thornton were excused and President Tom Sullivan joined the meeting.

Adjournment

The meeting was re-opened to the public at 12:07 p.m.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Dale Rocheleau, Chair