A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on November 9, 2015, at 10:00 a.m., in room 427A Waterman Building.

MEMBERS PRESENT: Chair Dale Rocheleau, David Brandt***, Bernard Juskiewicz, Ron Lumbra*, Ed Pagano*

MEMBERS ABSENT: Vice Chair Jeff Wilson and Donald McCree

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

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, Vice President for Executive Operations Gary Derr, Chief Internal Auditor William Harrison, Chief Information Officer and Dean of University Libraries Mara Saule, Associate Vice President for Research Administration Jennifer Gagnon, University Controller Claire Burlingham, Director of Compliance Services Tessa Lucey, Associate Chief Information Officer Julia Russell, and Claire Esten and Carolyn Warger of Grant Thornton.

* Participated via teleconference call
** Joined the meeting at 10:40 a.m.
*** Departed the meeting at 11:05 a.m.

Chair Dale Rocheleau called the meeting to order at 10:00 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the September 14, 2015, meeting minutes.


University Controller Claire Burlingham offered the Committee an overview of the FY 2015 draft Annual Financial Report. She was pleased to report that the University had received an unqualified audit opinion on October 14, 2015. She was also pleased to report that the external auditor’s FY 2015 Internal Controls letter contained no significant deficiencies or material weakness and all the issues from FY 2014 had been remediated.
Referring to her Annual Financial Report Highlights Fiscal Year 2015 presentation (attachment 2), Ms. Burlingham provided the Committee with an overview of the required financial statements and supplemental information, the University’s FY 2015 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 2015 revenues, expenses, and operating expenses.

Prompted by Chair Rocheleau, Ms. Burlingham explained why the University’s net position decreased by $16 million across all funds in FY 2015. Three noncash elements contributed to this decrease: 1) depreciation, 2) an unrealized loss on the investment pool, and 3) post-retirement benefits and compensated absences obligations.

Ms. Burlingham confirmed for Chair Rocheleau that the $5.6 million increase in net transfer of revenue from UVM component units came primarily from the UVM Foundation in terms of gifts.

At Chair Rocheleau’s request, Ms. Burlingham explained that the revenue associated with the University’s affiliation agreement with the University of Vermont Medical Center appears in the Financial Statements as operating revenues under Federal, State and Private contracts.

Ms. Burlingham clarified for Chair Rocheleau that the University’s net capital assets decreased from FY 2014 to FY 2015 by $5.9 million because overall depreciation was greater than the additions to the capital asset base.

Responding to Chair Rocheleau’s questions about the trend of the University’s postemployment benefits obligation, Ms. Burlingham explained that the postemployment benefits liability represents the University’s future obligation to pay health, dental, and life insurance retirement benefits to current, eligible employees. She further explained that the University’s obligation would continue to grow until the population receiving the defined benefits moved through the system. Vice President for Finance and Treasurer Richard Cate projected a continued increase in the postemployment benefits obligation until approximately 2032 when it would level off for a few years and then start to steadily decline.

Ms. Burlingham confirmed for Chair Rocheleau that $18.5 million of the University’s $19.1 million increase in operating revenues was from net student tuition and fees.

Trustee David Brandt inquired into how deferred maintenance spending correlated with depreciation. Vice President Cate explained how money invested in long-term capital improvement investments offsets depreciation. The University’s goal is to increase its investment in deferred maintenance to about $19 million.

Representative Wendy Coy asked what the difference was between academic support and institutional support. Ms. Burlingham responded that institutional support includes administrative functions while academic support includes academic support services such as the library and career counseling.
In response to Representative Barbara Arel’s question about why an Internal Control letter (attachment 4) was issued for FY 2015 when there were no material weakness or significant deficiencies to report, Ms. Esten explained Grant Thornton issued their letter to document the remediation of the FY 2014 findings.

Chair Rocheleau and Vice President Cate thanked Ms. Burlingham and her team for their work on the financial statements and congratulated them on the favorable outcome. Ms. Burlingham thanked the members of her team.

In conclusion, Vice President Cate asked Ms. Esten to explain the external auditor’s role in the financial statement process. Ms. Esten described how Grant Thornton is an independent, objective entity that reviews the financial statements prepared by management for reasonable assurance that the financial statements are free of material misstatement. Chair Rocheleau noted that Grant Thornton’s opinion about whether the University’s Financial Statements were fairly presented could be found in the University’s Annual Financial Report.

**Grant Thornton’s Report to the Audit Committee**

Claire Esten of Grant Thornton provided the Committee with a presentation (attachment 5) of the audited FY 2015 financial statements and their required communications to the Audit Committee. As previously reported by Ms. Burlingham, Grant Thornton issued an unqualified opinion. No material weakness or significant deficiencies were found during the audit.

Ms. Esten turned the presentation over to audit manager Carolyn Warger who reviewed the audit plan and major areas of significant focus.

At Chair Rocheleau’s request, Ms. Warger explained the additional testing required by new Office of Management and Budget (OMB) Uniform Guidance for the A-133 audit. Since the Uniform Guidance became effective half way through the fiscal year, some Federal grants required testing under the old guidance while grants issued after December 26, 2014, required testing under the new guidance.

Next, Ms. Warger offered a status report on the A-133 audit. Grant Thornton is completing their year-end testing. To date, there are no compliance or control findings to report. The results of the audit will be presented at the February 2016 Audit Committee meeting.

Moving on, Ms. Warger noted Grant Thornton identified six audit adjustments in their financial statement audit. None rose to the level of a material misstatement. Prompted by Chair Rocheleau and questions from Representatives Barbara Arel and Tanya Morehouse, Ms. Esten described the audit adjustments listed in Grant Thornton’s summary of unrecorded financial statement misstatements.

Ms. Esten concluded Grant Thornton’s presentation with an explanation of how Governmental Accounting Standards Board (GASB) 72 will affect the University; the new guidance relates to accounting for investments at fair value. Ms. Burlingham plans to present the effect of these
changes and what the financial statements will look like for FY 2016 at the Audit Committee’s April 2016 meeting.

**Recommendation of the FY 2015 Audited Financial Statements to the Board of Trustees for Acceptance**

Chair Rocheleau presented the following resolution recommending the FY 2015 Audited Financial Statements to the Board of Trustees for acceptance.

**Acceptance of Fiscal Year 2015 Audited Financial Statements**

WHEREAS, the financial Statements of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2015, have been audited by Grant Thornton LLP, Certified Public Accountants, 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 2015 Audited Financial Statements.

A motion was made, seconded and the following roll-call vote was taken voting on the resolution: Dale Rocheleau – Yes, David Brandt – Yes, Bernard Juskiewicz – Yes, Ron Lumbra – Yes, and Ed Pagano – Yes.

**Compliance Update**

Director of Compliance Services Tessa Lucey offered highlights from her written Compliance Update, included as attachment 7 in the meeting materials. She noted the written report covered program and work plan activity since the Office’s last report in July 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), Americans with Disabilities Act (ADA) distance education compliance, and the University’s compliance reporting calendars.

Next, Ms. Lucey explained that the Office of Compliance Services’ reports to the Committee would now align with the seven elements of an effective compliance program as outlined by the Federal Sentencing Guidelines. At Chair Rocheleau’s request, Ms. Lucey described how a program containing these seven elements can mitigate risk and, in some cases, prevent prosecution in the event of a compliance violation. The new report format is designed to provide members of the Committee a direct correlation between the University’s compliance program and the seven elements. This new format also provides the Committee with information important to its oversight of the program that describes (i) what the University has done in the past with respect to the program, (ii) what steps are planned for the future, (iii) why those steps are being taken, and (iv) how those steps may improve the effectiveness of the program.

Referencing the third element of an effective compliance program, avoiding delegation of authority to unethical individuals, President Sullivan inquired about the best practices for new hires and background checks. Ms. Lucey responded by explaining that the Office has participated in a background check initiative led by Human Resources. She was looking into the
feasibility of including a standardized process for performing sanction/exclusion checks as part of the hiring process at the University. One recommendation would be to perform background checks for director-level positions and higher and to perform sanction/exclusion checks on all staff.

Ms. Lucey concluded her presentation with an update of ongoing programmatic activity.

Chair Rocheleau commented that he enjoyed reading the Office’s fall 2015 compliance newsletter.

**FY 2016 Draft Internal Audit and Compliance Work Plan**

Chief Internal Auditor Bill Harrison presented the FY 2016 Audit and Compliance Work Plan. He offered the Committee a brief overview of the methodology used to create the work plan and the resources available to carry out the plan. He noted the connection between the audit and compliance work plan projects and the Enterprise Risk Management (ERM) risk and opportunity portfolio-register as well as the President’s strategic plan objectives.

**Audit Committee Charter Review**

Chair Rocheleau explained the Committee’s responsibility to review the Audit Committee Charter and Guidelines annually. The Committee agreed that no revisions were necessary at this time.

**Review the 2015 and 2016 Audit Committee Work Plans**

Mr. Harrison reviewed the 2015 Audit Committee Work Plan noting the inclusion of the revisions discussed at the November 2014 Audit Committee meeting. Chair Rocheleau commented that these changes were motivated by the Committee’s desire for more Committee time at its November meeting to review the annual financial report and the work of the external audit firm. In conclusion, Mr. Harrison explained that the 2016 Work Plan is the same as the revised 2015 plan.

**Other Business**

Bill Harrison reminded the Trustees of the annual Audit Committee assessment survey that will be distributed after the meeting.

At 11:22 a.m., a motion was made, seconded and approved to go into executive session for the purpose of discussing contracts, the evaluation of public officers or employees, and to receive the advice of Legal Counsel. 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 Tanya Morehouse of the State Auditor’s Office.
For the second item, Vice President for Executive Operations Gary Derr, and Director of Compliance Services Tessa Lucey 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 final item, all in attendance were excused, with the exception of the Trustees, Chief Internal Auditor William Harrison and Tanya Morehouse of the State Auditor’s Office; Claire Esten of Grant Thornton joined the meeting.

Adjournment

The meeting was re-opened to the public at 12:05 p.m.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Dale Rocheleau, Chair