A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on July 11, 2016, at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Bernard Juskiewicz, Vice Chair Jeff Wilson*, Ron Lumbra*, Curt McCormack*, Donald McCree*, Ed Pagano*, and Soraiya Thura

MEMBERS ABSENT: None

OTHER TRUSTEES PRESENT: David Daigle*

REPRESENTATIVES PRESENT: Tanya Morehouse of the State Auditor’s Office*, Faculty Representative Barbara Arel, Staff Representative Mindy Kear, and Student Representative Jacqueline Langham, and interim Graduate Student Representative Theresa Emory

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 Research Richard Galbraith, Chief Information Officer and Dean of University Libraries Mara Saule, Chief Internal Auditor William Harrison, Associate Vice President for Research Administration Jennifer Gagnon, Associate Chief Information Officer Julia Russell, University Controller Claire Burlingham, and Claire Esten and Patrick Hitchcock of Grant Thornton.

*Participated via teleconference call.

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

Approval of Minutes

A motion was made, seconded and voted to approve the April 25, 2016, meeting minutes.

Grant Thornton FY 2016 Financial Statement/A-133 Update

Claire Esten and Patrick Hitchcock of Grant Thornton, provided a status report on the FY 2016 Financial Statement and A-133 audits. Planning and interim procedures for the Financial Statement audit are substantially complete. Grant Thornton is currently requesting data and has begun testing for the Information Technology (IT) audit. The results of the IT audit will be presented at the September meeting.
Concerning the A-133 audit, the major program being tested for FY 2016 is the student financial aid cluster. So far, Grant Thornton identified one exception related to “verification”. After performing additional testing that resulted in no further exceptions, this exception was considered an anomaly and will not be reported as a finding. Ms. Esten also noted that Grant Thornton may need to modify its procedures after the issuance of the Office of Management and Budget’s (OMB) annual compliance supplement later this summer.

In conclusion, Ms. Esten explained that Grant Thornton was evaluating management’s assessment and disclosure of the adoption of the Governmental Accounting Standards Board (GASB) Statement 72, fair value measurements and application.

In response to Chair Juskiewicz’s question concerning when the adoption of GASB 72 will be wrapped up, Ms. Esten responded it would be completed with the issuance of the financial statements.

Trustee McCormack asked if the elimination of 40% rule would reduce some of Grant Thornton’s audit work. As background, Vice President for Finance and Treasurer Richard Cate explained that the State of Vermont had previously required in-state tuition be capped at no more than 40% of out-of-state tuition. Even though the State removed this requirement, the University has not changed policy related to the 40% rule. Therefore, the current audit and FY 2016 financial statements will not be impacted.

**Governmental Accounting Standards Board (GASB) Statement 72 Update**

University Controller Claire Burlingham began by explaining that certain investments had previously been reported at cost on the financial statements. Beginning with FY 2016, GASB 72 required the University to use the estimated fair value of these investments on the financial statements. To help the Committee understand how this change will impact the financial statements, Ms. Burlingham showed them how the University’s FY 2015 net position increased by approximately $17 million when reported at fair market value. She further explained that the footnote disclosure must show how the University valued each level of investment. In conclusion, Ms. Burlingham noted GASB 72 was one of five new GASB statements and the Committee could expect to receive future GASB updates.

Trustee McCree asked if Cambridge Associates (C|A) was helping the University to estimate the fair market value of its investments. Ms. Burlingham responded that they have not utilized C|A to date. However, if necessary, they could provide the underlying data for the level III investments which include private equity, venture capital, and real estate partnerships. Level 1 assets are those whose value can be quoted in active markets that the University has the ability to access. Level 2 assets are those whose valuation methodology include prices for similar assets in active markets, prices for similar assets in inactive markets, prices quoted that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 assets value are unobservable in the markets and require the University to make assumptions on the pricing based on the best information available.
Ms. Burlingham confirmed for Board Chair Daigle that the footnote disclosure will specify what investments fall under levels I, II, and III. In response to his next question about what portion of the University’s investments are level III, she estimated a third.

Vice President Cate commented on the additional work required to conduct the fair market value estimates. Also referring to attachment 3 in the meeting materials, he clarified that the approximately $17 million increase in net position for FY 2015 only reflects the way the numbers are reported and was not an increase in the amount of the endowment.

**Enterprise Risk Management (ERM) Portfolio Update - Resources for Research Compliance**

Vice President for Research (VPR) Richard Galbraith and Associate Vice President for Research Administration (AVPRA) 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 began by explaining that Sponsored Project Administration (SPA), the Research Protections Office (RPO) and the Office of the AVPRA are the units under the VPR with the most compliance responsibility.

Next, Dr. Galbraith turned the presentation over to AVPRA Jennifer Gagnon who provided a brief overview of the lifecycle of a sponsored project and regulated research activities involving human subjects, vertebrate animals, and biohazardous materials, as well as financial conflicts of interest, responsible conduct of research, research integrity, and export controls.

Continuing on, Ms. 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.

Ms. Gagnon concluded the presentation with a summary of forthcoming initiatives which include implementation of the remaining components of the Uniform Guidance, work on export controls, Research Protections Office workflow changes, and impending regulatory changes for human subjects research. Dr. Galbraith added comments on the behind-the-scenes work that contributes to the University’s successful research enterprise.

Board Chair Daigle asked if there were any circumstances that would prevent the University from pursuing a grant because the cost-benefit was not sufficient and if there was an offset for the cost of conducting compliance for administering grants. Dr. Galbraith explained how grants help advance the institutions academic mission and for this reason the University is very unlikely to turn down grant opportunities. Responding to Board Chair Daigle’s second question concerning funding to pay for grant administration, the Federal Government does not provide all the resources needed to administer grants requiring the University to subsidize grant research.

President Sullivan asked if the University tracks how much it subsidizes sponsored research. Dr. Galbraith responded that the University’s direct subsidy was approximately six percent of the
total awards 8 or 9 years ago. President Sullivan and Board Chair Daigle requested the OVPR start tracking how much the University is subsidizing sponsored research.

**Internal Audit Update**

Chief Internal Auditor William Harrison began by providing a brief summary of internal audit activity since the beginning of FY 2016 as well as an update on the Office of Audit Service’s (OAS) work plan.

Next, Mr. Harrison offered a summary of audit results. In particular, he reviewed the approval of revenue contracts. Following the Audit Committee’s Charter and Guidelines, Mr. Harrison reported that the OAS had identified several revenue contracts that were not approved as required by the *Resolution Regarding Board Reserved Rights and Delegated Authority*. In addition, the contracts were not routed to the Vice President for Finance and Treasurer for review and approval as required by the *Contract Approval and Signatory Authority* policy.

Vice President Cate commented on plans for formalizing the routing of contracts that require review and a process for tracking all revenue contracts.

Trustee McCree questioned if the identified revenue contracts were from one unit or across the University. Mr. Cate explained that the contracts were concentrated in the technical services and merchant areas, but not all of the revenue contracts had been identified.

Trustee McCree asked regarding the aggregate value of the contracts. Mr. Cate responded that the identified contracts added up to approximately $15 million. He also explained how the number of contracts brought to the Board would increase and questioned if this is what the Board desired.

Vice President for Legal Affairs and General Counsel Fran Bazlueke noted that the Board of Trustees had taken up this issue at its May 2016 meeting when it looked at the *Resolution Regarding Board Reserved Rights and Delegated Authority*. She recommended waiting a year to see how the new contract routing system is working before making changes to the resolution. Trustee McCree agreed with the idea of fixing the issue first and revisiting the threshold later.

Trustee McCree inquired if there were any concerns about the identified contracts. Mr. Cate explained the concerns were about the process not the contracts. Dr. Galbraith commented that any income generated from technical services is used to support research at the University.

In response to Mr. Cate’s question about what to do with the current contracts that had not been approved in accordance with the Board resolution or management’s policy, Mr. Harrison recommended ratifying the contracts at both levels. Board Chair Daigle suggested, at minimum, disclosing the issue and all the contracts impacted to the Board as well as a separate discussion about ratifying the contracts.

Responding to Trustee McCree and Board Chair Daigle’s questions about identifying contracts that need to go to the Board and setting up a tracking system, Mr. Cate explained that the Controller’s Office was currently identifying contracts that had not been approved in accordance
with the Board resolution. He also confirmed that a process for identifying contracts needing Board approval was being implemented.

Mr. Harrison concluded his presentation with an update on the status of internal audit recommendations. He provided a brief summary of the classification and status reporting process.

Mr. Harrison responded to Trustee McCormack’s question about how OAS decides to perform an audit by explaining proactive audits were based on an annual risk assessment. In addition, the Office responds to help line complaints. The only predetermined work the Office performs is its annual review of the President’s housing.

Referring to table 3 in attachment 5 of the meeting materials, Trustee McCormack inquired if there was any concern that the Rubenstein School was the only academic unit listed in the follow up table and whether 52 recommendations was significant. Mr. Harrison explained that the number of recommendations was a general indication of staffing capacity within academic units and their ability to meet all of the University’s policies and procedures.

**Information Security Officer (ISO) Position Update**

Chief Information Officer & Dean of University Libraries Mara Saule and Associate Chief Information Officer Julia Russell offered an update on the ISO recruitment. After an unsuccessful first attempt to fill the ISO position, the job description has been revised with the intention to attract candidates with stronger security backgrounds. The search team plans to review applications next week and invite finalists to campus in September.

Chair Juskiewicz inquired if the University has any exposures with the vacant ISO position. Ms. Saule explained that the University’s Information Security Office continues with their work on security issues, however without an ISO, it is lacking the resources needed for outreach and education.

**Other Business**

At 11:05 a.m., a motion was made, seconded and approved to go into executive session for the purpose of discussing 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 Finance and Treasurer Richard Cate, Chief Internal Auditor William Harrison, and Tanya Morehouse of the State Auditor’s Office.

For the second item, President Tom Sullivan, Vice President for Legal Affairs and General Counsel Fran Bazluke, Vice President for Finance and Treasurer Richard Cate were excused and Claire Esten of Grant Thornton joined the meeting.
Adjournment

There being no further business, Chair Juskiewicz adjourned the meeting at 11:48 a.m.

Respectfully submitted,

Bernard Juskiewicz, Chair