A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on September 12, 2016, at 9:30 a.m. in room 427A Waterman Building.


MEMBER ABSENT: Donald McCree

OTHER TRUSTEES PRESENT: David Daigle*

REPRESENTATIVES PRESENT: Tanya Morehouse of the State Auditor’s Office*, Faculty Representative Barbara Arel, Staff Representative Mindy Kear, Student Representative Jacquelyn Langham, and Graduate Student Representative Phill Munson

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, Associate Vice President for Administrative and Facilities Services William Ballard, Chief Information Officer and Dean of University Libraries Mara Saule, University Controller Claire Burlingham, Director of Compliance Services Tessa Lucey, Associate Chief Information Officer Julia Russell, and Claire Esten and Hassan Khan of Grant Thornton.

*Participated via conference call.
**Joined the meeting via conference call at 9:45 a.m.
***Joined the meeting at 10:35 a.m.

Chair Juskiewicz called the meeting to order at 9:33 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the July 11, 2016, meeting minutes.

Grant Thornton Fiscal Year (FY) 2016 Financial Statement/A-133 Update

Claire Esten of Grant Thornton briefly updated the Committee on the status of the FY 2016 Financial Statement audit. The results will be presented at the November 7, 2016, Audit Committee meeting.
Ms. Esten turned the presentation over to Grant Thornton Senior Manager Hassan Khan who oversaw the information technology (IT) audit and provided the Committee with an overview of the IT assessment. The audit resulted in six observations classified as control deficiencies, the lowest level of findings, which are not required to be reported to the Audit Committee.

Chair Juskiewicz asked if Grant Thornton was satisfied with management’s responses to their IT observations. Mr. Khan responded that he was satisfied with the responses. University Controller Claire Burlingham noted that the entire Division of Finance has transitioned to multifactor authentication for PeopleSoft.

In conclusion, Ms. Burlingham stated in regards to the progress of the FY 2016 Financial Statement audit, that to-date, Grant Thornton has not reported any control deficiencies or significant findings to management. Grant Thornton is on target to issue an opinion in early October.

Governmental Accounting Standards Board (GASB) Updates

University Controller Claire Burlingham offered an overview of the GASB pronouncements effective for the year ending June 30, 2016 and subsequent periods. She provided information regarding the following GASB statements, noting how each would impact the University’s financial statements: 72 Fair Value Measurement and Application, 74 and 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, and 76 the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. She concluded her presentation with a similar summary of forthcoming pronouncements.

Referencing the impending Fiduciary Responsibilities pronouncement, President Sullivan asked how agency funds were defined. Ms. Burlingham described agency funds as any organization that is not part of the University’s core mission, but whose financial transactions run through the University. At President Sullivan’s request, she offered the Greek organizations (fraternity and sorority life) and Inter-Residence Association (IRA) programing as examples of agency funds.

Referring to Ms. Burlingham’s list of GASB Pronouncements in the Pipeline, attachment 3 of the meeting materials, Board Chair David Daigle asked if these pronouncements were subject to ongoing rule making. Ms. Burlingham confirmed that they were, however, stated that they were far enough along in the process that some kind of standard could be expected.

Ms. Burlingham agreed with Board Chair David Daigle’s observation that the forthcoming Fiduciary Responsibilities GASB would complicate the financial statements. She also agreed with Board Chair David Daigle and President Sullivan’s comments about moving the agency funds out of the University’s custodial care to minimize the substantial workload burden that would be created by this GASB.

Chair Juskiewicz asked Ms. Burlingham if she had adequate staffing to implement the GASB pronouncements. Ms. Burlingham confirmed that the pronouncements created an administrative burden for the University. Chair Juskiewicz suggested meeting with the Committee, in the future, to help them understand the technical requirements necessary to adhere to the pronouncements.
Citing the forthcoming GASB for accounting for leases, Board Chair David Daigle asked what the scope of operating leases was at the University. Ms. Burlingham estimated it to be approximately $3 to $4 million per year. Ms. Burlingham commented on the administrative burden this GASB will create due to the large number of small value leases at the University.

**Summary Report of Presidential Housing Expenses**

Referring to attachment 4 of the meeting materials, Chief Internal Auditor Bill Harrison provided the Committee with a summary of FY 2016 Presidential housing expenditures in accordance with University Operating Procedure the President’s Official Residence. He reported that operating expenses totaled $78,604.

Trustee Curt McCormack felt that the heating costs seemed high and questioned if Englesby House was insulated or modernized. Associate Vice President for Administrative and Facilities Services William Ballard confirmed that the amount of insulation within the house varied due to the historic nature of the structure.

**Enterprise Risk Management (ERM) Portfolio Update - Personal Protected Information Breach**

Chief Information Officer (CIO) and Dean of University Libraries Mara Saule and Associate CIO Julia Russell provided the Committee with their annual update on the ERM portfolio item: Protected Personal Information Breach.

Ms. Saule explained that while the University has done a good job protecting its systems, attempted breaches continue to be a threat and occur with increased frequency and sophistication.

Ms. Saule turned the presentation over to Associate CIO Julia Russell. Ms. Russell explained that one of the more common security risks occurs when people are tricked into providing their credentials (user name and password) through phishing emails.

Graduate Student Representative Phill Munson asked if clicking on a non-University of Vermont link within a phishing email made you vulnerable or if you had to enter your credentials to expose your account. Ms. Russell explained that clicking on a link can be dangerous because it could download harmful software (malware) to your computer. However, the more common scenario is when people click on the phishing link and enter their own credentials.

Continuing on, Ms. Russell shared data collected and trends derived from compromised accounts at the University over the past two years. She reviewed the University’s breach response plan in addition to proactive security breach management strategies including the roll out of multifactor authentication.

Referring to Ms. Russell’s presentation chart comparing the number of reported phishing emails with compromised accounts, Trustee Soraiya Thura questioned why the number of attacks had significantly increased within the last six months. Ms. Russell responded that she was not sure
why the number had increased recently; however, the increase is not University-specific. The number of phishing attempts is increasing worldwide.

Board Chair David Daigle commented that multifactor authentication was becoming a common practice and questioned if new attacks would try to circumvent this security measure. Ms. Russell explained that she had not heard of any issues within higher education, but did acknowledge that other controls related to multifactor authentication were part of the conversion project.

Representative Phill Munson asked if a breach victim would need to contact someone or if the University’s system would immediately recognize a compromised account. Ms. Russell explained that both scenarios could be pertinent. The phishing attack may be recognized through routine operations and it may be recognized by the user and reported to Enterprise Technology Services (ETS). When recognized, standard operation procedures are deployed.

In conclusion, Ms. Russell offered an update on the Information Security Officer (ISO) recruitment. She stated that the top four candidates will be invited to campus during the last two weeks of September and the search team hopes to recommend a finalist by the end of October.

2016 Annual Compliance Update

Following the new reporting guidelines approved by the Committee in February 2016, Director of Compliance Services Tessa Lucey offered the Office of Compliance Services first annual report. All reports (annual and updates) are modeled on the seven elements of an Effective Compliance Program as outlined by the Federal Sentencing Guidelines. In addition to items reported for every compliance update, the annual report also includes cumulative information.

Continuing on, Ms. Lucey offered a brief work plan status report highlighting plans to roll out the new Code of Conduct and Ethical Standards that will be presented to the Committee at their November 2016 meeting. She also provided a summary of additional compliance activities including consultations, response to privacy incidents, monitoring the University’s Ethics and Compliance Reporting and Help Line, compliance training, policy administration, and monitoring government reviews. In conclusion, she emphasized her Office’s continued commitment to enhancing a culture of compliance at the University.

Recognizing that Ms. Lucey had commenced her role as the Director of Compliance Services about a year ago, Chair Juskiewicz asked how the compliance program has changed over the past year. Ms. Lucey responded that the University had a very mature program when she arrived. The biggest change over the past year has been increasing awareness of the Compliance Office and the Compliance Program.

Chair Juskiewicz asked how often the Compliance Office issued its Compliance Counts newsletter. Ms. Lucey explained that it was generally issued seasonally. Following up, Chair Juskiewicz commented that Trustees should receive a copy of the newsletter when issued.

Trustee Curt McCormack questioned who the members of the Operational Compliance Committee (OCC) were and what parts of the University they represented. Ms. Lucey explained
that she sought representatives from the more heavily regulated areas of the University that have compliance responsibility. The members usually hold director level or higher positions.

Trustee Curt McCormack asked how many breach cases go to the Vermont Attorney General’s Office. Ms. Lucey explained that Vermont regulation has no threshold for reporting therefore when an incident occurs that meets the definition of a breach, the University is required to report it to the Attorney General. As phishing attacks increase, the assumption is that so too will the number of reports. In the past year, one case has been reported to the Vermont Attorney General’s Office.

Representative Phill Munson questioned if the potential for resolving reports to the Ethics and Compliance Reporting and Help Line was different depending on whether a reporter identified themselves. Ms. Lucey explained that the investigation may be more difficult, but the resolution based on the investigation would not. She confirmed that it is often more difficult to substantiate anonymous reports; however, if the report is substantiated, the resolution would not be different.

Audit Committee Charge and Charter Review

Directing the Committee to the Audit Committee Charge and Charter, included as attachment 7 and Appendix A of attachment 8 in the meeting materials, Chair Juskiewicz turned the presentation over to Ms. Lucey to review proposed changes to the Audit Committee Charter and Guidelines. She explained that the revisions ensured consistency between the newly approved reporting guidelines and the Committee’s principal responsibilities.

At the conclusion of the previous discussion, Chair Juskiewicz presented the following resolution for approval:

Resolution Approving Audit Committee Charter Revisions

WHEREAS, the Audit Committee has decided to ensure that its Charter and Guidelines are consistent with the Board’s reserved rights and delegated authority and the Committee’s principal responsibilities;

WHEREAS, the Audit Committee has decided to ensure that its Charter and Guidelines are consistent with previously approved guidance related to reports made to the Audit Committee on the status of internal compliance audits and government agency audits, investigations and reviews;

BE IT RESOLVED, that the Audit Committee hereby approves the revisions to the Audit Committee Charter and Audit Committee Guidelines, as included in Appendix A, for recommendation to the Board.

A motion was made, seconded and it was unanimously voted to approve the resolution as presented.
Summary Report of Presidential Expenses Reimbursements

In accordance with the Audit Committee Charter, Vice President for Finance and Treasurer Richard Cate provided the Committee with a summary of the President’s FY 2016 University travel expenses. He verified that the expenses, totaling $9,186.97, are consistent with University policy.

Other Business

At 10:42 a.m., a motion was made, seconded and approved to enter 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 Trustees, President Tom Sullivan, Chief Internal Auditor William Harrison, Tanya Morehouse of the State Auditor’s Office, and Claire Esten of Grant Thornton.

For the second item, Claire Esten was excused and Vice President for Legal Affairs and General Counsel Fran Bazluke, and Vice President for Finance and Treasurer Richard Cate joined the meeting.

Adjournment

The meeting was re-opened to the public at 11:09 a.m.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Bernard Juskiewicz, Chair
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE BOARD OF TRUSTEES

AUDIT COMMITTEE

Charter

This Charter sets forth the responsibilities of the University Board of Trustees Audit Committee.

I. Principal Responsibilities

The principal responsibilities of the Committee shall include:

a. promoting the development and monitoring the effectiveness of an institutional system of risk assessment and internal controls. At least annually, reviewing with management the University’s processes for identifying, prioritizing, mitigating, and reporting institutional risks;

b. reviewing and, as appropriate, making recommendations to the Board, regarding institutional policies relevant to the scope of Committee responsibilities, including conflict of interest, ethical and fraudulent conduct, whistleblower protection, and documents retention;

c. ensuring that audit plans encompass significant and material aspects of University operations;

d. full authority and oversight of the internal audit function including appointment decisions, performance evaluations, and employment termination of the chief internal auditor;

e. implementing a selection process to retain the independent auditor and making a recommendation to the Board of Trustees for approval. Recommending such additional audits as the Committee and/or the Board must approve under the Board’s reserved authority;

f. maintaining direct and effective communication with independent auditors on behalf of the Board;

g. reviewing the results of internal and external audits (including the annually audited financial statements), and assessing the quality and timeliness of management’s response and corrective actions;

h. reviewing the effectiveness of the University’s practices related to monitoring its compliance with laws and regulations;

i. reviewing the results of management’s investigation and resolution of any reported, or otherwise discovered, significant instances of noncompliance;

j. evaluating the scope and quality of internal and independent audit services, and the degree of coordination and appropriate degree of independence between them;

k. reporting regularly and promptly to the Board regarding matters within the scope of the Committee charge; and,
I. periodically reviewing expense reimbursements, or summaries thereof that have been submitted by the President and reviewed and certified by the Vice President for Finance and Treasurer.

II. Membership

The University of Vermont Board of Trustees shall annually appoint at least 5 of its members to the Committee. Its members shall be independent of management and the University including its component units and affiliated organizations. For the purposes of this charter, “independence” is defined as rendering a Trustee ineligible for Committee service if he or she (1) is employed by the University; (2) is a partner or employee of a firm retained to conduct an audit of the University; (3) held such University employment or audit engagement at any time during the previous three years; or (4) is receiving consulting, advisory, or other compensatory fees for services provided to the University. Members of the Investment Subcommittee are eligible for appointment to the Audit Committee, but no such member may serve as its Chair or Vice Chair. The University President is ineligible for service as a member, ex officio or otherwise, of the Audit Committee, as a University official and employee.

Committee members shall otherwise be subject to the Conflicts of Interest Policy in the conduct of their work.

Members of the Committee shall receive orientation appropriate to their Committee membership. All members should have a general understanding of general accounting, business and finance principles, including the ability to read and understand institutional financial statements, whether gained preceding service on this Board of Trustees or during Committee orientation. At least one member of the Committee should possess accounting or financial expertise.

III. Authority

The Committee is authorized to investigate any matter within the scope of its Charter, with full and direct access to all pertinent University records, personnel, independent auditors and consultants.

IV. Adoption of Charter

This Charter shall be effective as of the date of its approval by the Board. The Committee will annually review the Charter and recommend to the Board revisions thereto, in view of evolving accounting standards, legal developments and experience gained.

Audit Committee Guidelines

These Guidelines serve as an operational supplement to the Audit Committee Charter. They are intended to reflect generally accepted accounting industry standards and practices applicable to non-profit corporations and higher education institutions.

The Guidelines shall be reviewed annually by management, and management shall report annually to the Committee regarding the status of the Guidelines. The Committee shall make revisions to the Guidelines as necessary or appropriate in view of evolving accounting standards.
and practices, legal developments and experience gained.

I. Retention of the Independent Audit Firm

a. The Committee shall annually authorize and direct the Committee Chair to retain the independent audit firm to conduct the mandatory annual audit of the financial statements and/or compliance audits. In conjunction with such retention, the Committee will assess the independence and objectivity of the firm by obtaining statements from the firm on relationships between the firm and the University. The Committee will review and assess any relationships disclosed that may impact auditor objectivity and independence.

b. The Committee shall solicit requests for proposals relative to the mandatory annual audit of the financial statements and/or compliance audits from qualified independent audit firms no less than once every five years.

c. In the event that an independent audit firm is retained to conduct the mandatory annual audit of the financial statements and/or compliance audit for seven or more consecutive years, the Committee shall, as a condition of retention of the firm, require rotation of the lead audit partner on the University engagement.

II. Retention of Other Audit Services

a. The independent audit firm retained to conduct the mandatory annual audit of the financial statements and/or compliance audits generally shall not be eligible for University engagements to perform non-audit services that would violate the U.S. Government Accountability Office Independence Standard. If, due to extenuating circumstances, and in the exercise of its reasonable discretion, management deems it to be in the best interests of the University to retain the independent audit firm for non-audit services, the proposed retention is subject to review and action by the Committee where the retention will result in fees of $10,000 or more.

b. Contracts for non-audit services with independent audit firms not already retained by the University to conduct the mandatory annual audit of the financial statements and/or compliance audits are subject to review and recommendation by the Committee and subsequent Board consideration and action when such retentions will result in fees of $250,000 or more.

III. Oversight of Audits

The Committee will, no less than once annually, and otherwise periodically as necessary or desirable:

a. review annual audit plans developed by the Office of Audit Services, and receive regular progress reports relative to such plans;

b. review audit plans developed in consultation with independent audit firms, including (i) the critical accounting policies and practices to be used; (ii) all alternative treatments of financial information discussed with management, ramifications of alternative treatment and the treatment preferred by the firm; (iii) other material communications between the firm and management; and (iv) required communications from the firm under Statement of Auditing Standards No. 114, as amended;
c. subject to subsequent Board consideration and action, review and accept the mandatory annual audit of the financial statements. Review the Office of Management and Budget Circular A-133 audit, and the financial agreed upon procedures report of institutional National Collegiate Athletic Association programs;

d. resolve disagreements between management and the independent audit firm regarding financial reporting;

e. review the independent audit firm management letter comments regarding institutional financial and information technology and security internal controls, accounting policies and procedures, and management’s response to those comments;

f. review with management and the independent audit firm their respective judgments about the quality of University accounting principles; the consistency, and the degree of aggressiveness or conservatism, in the application of accounting principles; the reasonableness of significant accounting judgments; and the clarity and completeness of the financial statements and related disclosures;

g. confirm with management and the independent audit firm respectively that the annual financial statements disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships of the University with unconsolidated entities or other persons that may have a material current or future effect on institutional financial condition, and the results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses;

h. receive reports from management, the Office of Audit Services and the independent audit firm, regarding new and significant accounting standards to understand their impact on institutional financial statements;

i. receive reports from the Office of Audit Services regarding any financial fraud which, in single incident or aggregate, results in an institutional uninsured or insured loss in excess of $10,000;

j. review the organizational structure, qualifications, independence, scope of services inclusive of office charter, and adequacy of resources of the University’s Office of Audit Services;

k. annually review the appointment, evaluate the performance and set the salary of the chief internal auditor;

l. identify and document specific administrative responsibilities relevant to the routine operations of the office of chief internal auditor that are assigned to the President;

m. ensure that regular quality assessment reviews of the internal audit operations are performed in accordance with Institute of Internal Auditors standards; and,

n. meet separately with both the internal and external auditors without management representatives present subject to the requirement of the Vermont open meeting laws.

IV. Internal Controls

The University’s executive management and the Board of Trustees Audit Committee have
adopted the Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework to help assess and enhance its internal control systems.

a. Certifications

i. The Committee will receive periodic reports from management on representations it is rendering in conjunction with mandatory annual audit of the financial statements and/or compliance audits as well as significant and material debt financing, such as issuance of bonds.

ii. Without limitation on IV.a(i), the Committee will receive from the Vice President for Finance and University Treasurer a record of certification along with the annual financial statement report that:

a. He/she has approved the financial statements,

b. Based on his/her knowledge, the report does not contain any material errors or omissions,

c. Based on his/her knowledge, the financial statements materially present the financial condition and result of operations,

d. He/she is responsible for establishing and maintaining a system of internal controls over financial reporting, and that,

e. He/she has disclosed to the auditors and the Audit Committee all significant internal control deficiencies and changes that could materially affect financial data.

b. Policy Review.

The Committee will receive for its review and comment and, if necessary, its recommendation to the Board, institutional policies relevant to its scope of work, including conflict of interest, ethical and fraudulent conduct, whistleblower protection, and documents retention.

c. Required Disclosures and Compliance Monitoring.

The Committee shall oversee compliance with the Board Reserved Rights and Delegated Authority resolution. Violations of the Board Reserved Rights and Delegated Authority resolution identified by management or the internal audit office shall be reported to the Committee.

d. Confidential Reporting.

The committee will ensure that the University has a mechanism that permits confidential communications from employees and others regarding potential financial or accounting improprieties or nonfeasance.

**V. Enterprise Risk Management**

a. Oversee management’s enterprise risk management process on behalf of the Board.

b. Receive periodic updates on management’s process to identify, prioritize, mitigate, and report
institutional risks including the process to map risks to relevant Board Committees.

VI. Compliance

a. Review with the Office of Compliance Services and management the effectiveness of the University’s practices related to monitoring compliance with laws and regulations;

b. Review with the Office of Compliance Services and management, the results of management’s investigation and resolution of any reported, or otherwise discovered, significant instances of noncompliance; findings of internal compliance auditing and monitoring activities;

c. Review with the Office of Compliance Services and management, the findings of government agency audits, investigations, reviews any compliance examinations by regulatory agencies and any auditor observations; monitoring activities that the Director considers significant, that are initiated by a government agency as a result of a whistleblower report, or on a for-cause basis, or that result in a fine, penalty, refund, disallowance or questioned cost in excess of $10,000;

d. Review with the Office of Compliance Services and management, the process for communicating the code of business conduct, code of ethical behavior or other such code to University personnel and for monitoring compliance therewith;

e. Receive periodically, but not less than annually, reports from the Office of Compliance Services on its activities;

f. Receive updates from the Office of Compliance Services and management on new and emerging compliance issues, including their impact to the University.; and,

g. Receive as needed, through the Audit Committee Chair, compliance matters communicated directly by the Chief Internal Auditor or Director of Compliance Services.

As approved by the Board of Trustee: November 13, 2004
Approved as amended by the Board of Trustees: September 8, 2007
Revised by the Audit Committee: November 12, 2007
Approved as amended by the Board of Trustees: December 1, 2007
Revised by the Audit Committee: April 28, 2009
Approved by the Board of Trustees: May 16, 2009
Revised by the Audit Committee: October 11, 2010
Approved by the Board of Trustees: October 30, 2010
Revised by the Audit Committee: November 14, 2011
Approved by the Board of Trustees: February 4, 2012
Revised by the Audit Committee: September 15, 2014
Approved by the Board of Trustees: October 18, 2014
Revised by the Audit Committee: