A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on April 24, 2017, at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Bernard Juskiewicz, Vice Chair Jeff Wilson*, Ron Lumbra*, Curt McCormack, Caitlin McHugh, and Shap Smith

MEMBER ABSENT: Ed Pagano

OTHER TRUSTEES PRESENT: David Daigle* and Don McCree*

REPRESENTATIVES PRESENT: Staff Representative Mindy Kear, Student Representative Jamie LaPierre, and Graduate Student Representative Phill Munson

REPRESENTATIVES ABSENT: Faculty Representative Barbara Arel, Vermont State Auditor Douglas Hoffer, Tanya Morehouse of the State Auditor’s Office, and Alumni Representative (appointment pending)

PERSONS ALSO PARTICIPATING: Vice President for Legal Affairs and General Counsel Francine Bazluke, Vice President for Executive Operations Gary Derr, Chief Information Officer and Dean of University Libraries Mara Saule, Chief Internal Auditor William Harrison, Chief of Staff and Senior Counsel to the President Sharon Reich Paulsen, University Controller Claire Burlingham**, Chief Risk Officer Al Turgeon, Director of Compliance Services Tessa Lucey, Associate Chief Information Officer Julia Russell, Information Security Officer Mark Ackerly, Director of System Architecture and Administration Mike Austin, and Renee Bourget-Place, Sara Timmerman, and David Gagnon of KPMG.

* Participated via teleconference
** Participated via teleconference call and joined the meeting at 11:16 a.m.

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

Approval of Minutes

A motion was made, seconded and voted to approve the February 2, 2017, meeting minutes.

Presentation of the Fiscal Year (FY) 2017 External Audit Engagement Plan

Referencing Attachment 2 of the meeting materials, Lead Audit Engagement Partner, Renee Bourget-Place, began by reviewing KPMG’s plan for the FY 2017 audit engagement including the scope of work and client services team. In addition, she reviewed the objectives of an audit and materiality.
Next, Ms. Bourget-Place turned the presentation over to Lead Audit Engagement Manager Sara Timmerman who walked through KPMG’s audit approach and time line. Ms. Timmerman also reviewed KPMG’s preliminary risk assessments including significant judgments and estimates, significant activities, and information technology matters.

Trustee Curt McCormack noted a typographical error under estimates on page nine of the presentation (Attachment 2).

In response to Trustee Caitlin McHugh’s question about what aspects of the University’s research is audited, Ms. Timmerman explained that KPMG looks at compliance and appropriate expenditure of federal research funds.

Representative Phill Munson asked if internal grants were also audited. Ms. Timmerman responded that it depends on how material the grants are and that internal grants are not part of the Uniform Guidance audit.

In conclusion, Ms. Timmerman explained that the two major programs to be audited in the Uniform Guidance audit were the Research and Development and Medicaid clusters. She noted that the Department of Education has indicated that they believe the Student Financial Assistance (SFA) cluster should be audited each year. KPMG is working under the assumption that the University will be applying for, and granted, a waiver from the annual SFA audit for 2017.

Responding to Chair Juskiewicz’s question about when the SFA waver must be submitted, Ms. Bourget-Place explained there is no deadline; however, it must be done in a timely manner to complete the audit.

At Trustee Shap Smith’s request, Ms. Bourget-Place explained that the Medicaid cluster is comprised of pass-through funding from the State of Vermont.

**KPMG’s Higher Education Update**

David Gagnon, KPMG’s Engagement Quality Control Review Partner, provided the Committee with an update on the state of the higher education industry. Referencing Attachment 2, Mr. Gagnon offered highlights from Moody’s outlook on higher education, fall 2016 enrollment statistics, perspectives on enrollment challenges and opportunities, the National Association of College and University Business Officers’ (NACUBO) endowment return survey, emerging technology matters, and audit committee focus areas.

Moving on, Mr. Gagnon reviewed Governmental Accounting Standards Board (GASB) statement changes. In particular, GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions will become effective beginning FY 2018 and will have a significant impact on the University’s Financial Statements.

Mr. Gagnon concluded his presentation with an overview of how the new administration and congress in Washington D.C. could impact higher education.
Trustee Curt McCormack asked Mr. Gagnon for the name of the Moody’s article that he referenced during his higher education outlook update that described specific proposed federal budget reductions that would be largely credit negative for higher education. Mr. Gagnon could not recall the full name of the report and offered to get this information for the Committee.

Chair Bernard Juskiewicz asked how the new GASB statements would impact staff capacity at the University. Ms. Bourget-Place and Mr. Gagnon commented that there are a fair number of new standards coming online over the next few years and that implementing any new standards can stretch resources.

**Internal Audit Update**

Referring to Attachment 3 of the meeting materials, Chief Internal Auditor William Harrison offered a brief summary of internal audit activity since July 1, 2016, an update on the Office of Audit Service’s (OAS) 2017 work plan, and the status report of internal audit recommendations. Lastly, he provided a summary of selected benchmarking data for internal audit staffing noting two differences related to investigative and information technology functions.

Mr. Harrison confirmed for Trustee Curt McCormack that the Video Surveillance audit provided 13 specific recommendations.

Director of Compliance Services Tessa Lucey concluded the presentation with an update on government reviews. She informed the Committee that the University had settled the August 2015 Environmental Protection Agency (EPA) investigation.

Trustee Curt McCormack asked how much the settlement amount was and Ms. Lucey reported that it was settled for $20,000.

**Review of Calendar Year (CY) 2017 Enterprise Risk Management (ERM) Process**

Chief Risk Officer Al Turgeon began by explaining the purpose of his presentation was to help the Committee fulfill its ERM oversight responsibilities and provide an opportunity for the Committee to weigh-in on the process. Referring to Attachment 4 of the presentation materials, Mr. Turgeon reviewed the ERM governance structure and how the annual risk assessment process resulted in the creation of the risk-opportunity register-portfolio, heat map, management response plans for all the highest risks and opportunities, and management response plan reporting schedule to the Board of Trustees.

Moving on, Mr. Turgeon commented on how the risk assessment process is both formal and linear, and informal and dynamic to address emerging risks and opportunities that arise throughout the year. This year the Very Fast Response Desired (VFRD) procedure was added to the risk assessment process as a way to address urgent off-cycle issues.
In conclusion, Mr. Turgeon provided the Committee with the University’s definition of risk, an example of an opportunity assessment, and the CY 2017 management response plan presentation schedule.

Trustee Curt McCormack’s asked why the “Reduce Carbon Footprint” opportunity had lines though it on the heat map. In Response, Mr. Turgeon explained that its title had been changed to “Enhance UVM’s Role in Reducing Climate Change” and was moved to the register as a lower level opportunity. Mr. Turgeon assured the Committee that the University was still paying attention to the opportunity.

Responding to Trustee Caitlin McHugh’s question about whether the University was addressing individual risks and whether there is a root cause analysis performed, Mr. Turgeon confirmed that the University’s goal is to address the root cause.

**ERM Updates: Information Security and Data Center Failure**

Chief Information Officer and Dean of University Libraries Mara Saule introduced two ERM risk management portfolio items: Information Security and Data Center Failure. She turned the presentation over to Information Security Officer Mark Ackerly to provide an update on the Information Security risk.

Mr. Ackerly began by explaining that the likelihood and severity of the risk outlined in the management response plan provided in the meeting materials as attachment 5 was based on a major event scenario.

Next, Mr. Ackerly explained the Information Security Operations team’s plan to conduct a holistic risk assessment based on the National Institute of Standards and Technology’s (NIST) cyber security framework. Mr. Ackerly reminded the Committee that the University is only as strong as its weakest link; therefore, it is important to apply the results of the assessment across the whole University in order to build a secure computing environment. Information security threats are not static; rather, they are continually evolving and expanding. This requires continual and on-going review, adjustment, monitoring, and resources.

Trustee Caitlin McHugh asked if and how the Information Security team was involved in the recent laptop thefts at the library. Mr. Ackerly explained that his team was involved. Mr. Ackerly also explained that, depending on the situation, his team works with law enforcement to find the laptops. His team also helps to determine if there is any protected information on the devices so that the appropriate University and regulatory requirements are fulfilled.

Trustee Curt McCormack asked if the University’s system was vulnerable to electromagnetic pulses or solar flares and if there was a backup plan if the system went down. Mr. Ackerly confirmed that the University is vulnerable to such events although the risk is very minimal. He also confirmed that the University had a number of backup plans depending on the type of incident.
Mr. Ackerly responded to Trustee questions about ransomware by explaining what ransomware is, how opportunistic the attacks are, and how difficult it is to track down criminals.

Chair Juskiewicz asked if the Committee could have a presentation at a future meeting about the state of information technology (IT) at the University so that it could have a better understanding of people, systems, budget, and exposures. Board Chair David Daigle commented that the topic had come up at a prior Board meeting and agreed the issue needed to be addressed. After a brief discussion, Chair Juskiewicz and Ms. Saule agreed that the fall would be a good time for a presentation.

Board Chair David Daigle asked Mr. Ackerly who he engages with outside of the University to get information about security trends and best practices. In response Mr. Ackerly provided a list of resources including the Research and Education Networking Information Sharing and Analysis Center (REN-ISAC) and the Vermont Intelligence Center as well as federal and local law enforcement agencies.

Moving on, Director of System Architecture and Administration Mike Austin introduced the Committee to the Data Center Failure risk. He explained that recent events had increased the likelihood of the risk moving it from the ERM register to the portfolio. As background, he described what a data center is, the University’s data center environments, and what is being done to address issues. In conclusion, he commented on how the IT deferred maintenance funding approved by the Board of Trustees is helping to mitigate many of the data center issues and that capital funding may be needed to correctly solve the lack of space at University’s secondary data center.

In response to Board Chair David Daigle’s question about moving the backup data center to the cloud, Mr. Austin explained that it is possible but, since the University is a very data heavy organization a long-term cost analysis would be needed.

Board Chair David Daigle asked if Mr. Austin was concerned about having the primary and secondary data centers geographically close to one another. Mr. Austin responded that backup data is also sent to well protected, underground vaults that provided extensive safeguards. The close proximity of the two data centers would be considered when redesigning the new secondary data center.

Executive Session

At 11:55 a.m., Chair Juskiewicz entertained a motion to enter into executive session for the purpose of receiving confidential attorney-client communications made for the purpose of providing professional legal services, and discussing the appointment or employment or evaluation of a public officer or employee, a disciplinary or dismissal action against a public officer or employee, and contracts, 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, Vice President for Legal Affairs and General Counsel Francine Bazluke, Vice President for Executive
Operations Gary Derr, Chief of Staff and Senior Counsel to the President Sharon Reich Paulsen, Chief Internal Auditor William Harrison, and Director of Compliance Services Tessa Lucey.

The meeting was re-opened to the public at 11:56 p.m.

**Adjournment**

There being no further business, the meeting was adjourned.

Respectfully submitted,

Chair Bernard Juskiewicz