November 3, 2008

The Audit Committee
The University of Vermont and
State Agricultural College

Ladies and Gentlemen:

We have audited the basic financial statements of the University of Vermont and State Agricultural College, (the University) for the year ended June 30, 2008, and have issued our report thereon dated November 3, 2008. In planning and performing our audit of the basic financial statements of the University, we considered the University’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Journal Entries

Certain managers at the University have the ability to post and approve their own journal entries. There is no secondary level of review or approval. Fifteen of forty journal entries selected for testing were posted without secondary review or approval due to the fact that the individuals posting the journal entries are “self-approvers” within PeopleSoft system. We reviewed the supporting documentation and noted the journal entries appeared properly posted.

Journal entries are submitted by various people to an Approver Worklist in PeopleSoft. During fiscal 2008 there was no process in place to ensure that all journal entries are posted to the general ledger (i.e. that they are reviewed, posted, and taken off the Approver Worklists in PeopleSoft). We noted that as of year-end fieldwork in September 2008, all of the journal entries (including General Ledger and Grants and Contracts related journal entries) were approved and cleared from the worklist and posted to the general ledger.
In the Grants and Contracts area many of the journal entries relating to cost transfers were properly reviewed, approved and posted to the general ledger however an audit trail of supporting documentation was not maintained.

Recommendation:
We recommend the University reviews its policies and procedures surrounding journal entries to ensure appropriate segregation of duties and appropriate controls to ensure timely and accurate posting of journal entries with the appropriate level of secondary review and supporting documentation.

Management’s Response
We have implemented a report of all self-approved posted journals to be reviewed monthly by the Controller or their designee and will start the process of implementing a solution in PeopleSoft using the work list functionality for these approvals, in the future.

At fiscal 2008 year-end we implemented a process to identify all journals that had been put in the system, but were not approved and posted yet. We followed up on these journals and approved and posted or denied and deleted all of them. As of July, 2008 we implemented a monthly closing process that assures that all valid journals are approved and posted. If there are problems that need to be addressed, the journals are re-dated and rolled into the following month so that the problem can be corrected before posting.

The University relies on the PeopleSoft system to provide the appropriate audit trail for journal entries, as PeopleSoft contains the detailed information that is reviewed in the journal entry approval process. The journal entry reviewer in Grant & Contract Administrative Services requests references to the original transaction, which may be viewed directly in PeopleSoft to ensure that the original transaction was processed against the chart string from which it is being moved. This is in compliance with the University’s existing Cost Transfer Policy. Current practice in Grant & Contract Administrative Services is to ensure that all journal entries are reviewed, approved, and posted, if appropriate, by the end of the accounting period during which they were initiated. As part of the end to end review of the Grant and Contract Lifecycle, which is currently underway, a thorough review of the existing Cost Transfer Policy and accompanying procedures is required. This may result in materially less journal entries requiring approval from Grant & Contract Administrative Services (for example, many internal charge journal entries are currently processed as cost transfers rather than internal charge journal entries).

Grant and Contract Accounting
The PeopleSoft implementation caused several issues relating to Grant and Contract accounting and administration during 2007 that were not fully resolved during 2008, including:

- The grant billing module was not implemented until late in fiscal year 2008 and thus grant project billing was not performed timely in 2008. Additionally, much of the billing was done using estimated amounts and not reconciled fully to actual billing until the end of the fiscal year.
- Many grant transactions were not processed timely during 2008, such as salary distributions, cost transfers and purchasing card transactions. This made it difficult for project managers to review and manage their grants timely.
- The quarterly process of sending effort reports to principal investigators was “suspended” in 2007 and effort reports were only sent out once in 2008. Additionally, the process changed in 2007 from the Grant and Contract Administration Department sending paper effort reports to a request for each department to run queries from the Peoplesoft system to verify effort on each grant. While this may be a positive change in business processes, this will only be effective with timely and relevant training on how to use the system and the importance of timely and effective monitoring of time and effort charged to federal grants.

- Grant billing/reimbursements generally occur based on actual expenditures or specific grant milestones and is performed at least monthly to ensure the University optimizes its cash flow. For most of 2008 cash draw downs were still being performed using a conservative estimate of expenditures (generally based on 80% prior year salary expenses).

- Federal reports to awarding agencies were filed late through the fiscal year.

Recommendation:

We recognize that significant progress was made in this area from last year. We recommend the University continue to implement a comprehensive review of its grant and contract accounting function to ensure that the above issues noted during 2007 and 2008 do not continue. In addition, now that some of the processes and systems are being put into place, we recommend the University undertake a re-training program for its departments that have Grant funding. Additionally, we recommend the University formalize its policies and procedures related to grant administration and make those policies and procedures readily available to everyone with grant administration responsibilities.

Management’s Response

A formal Effort Management and Reporting policy was approved and communicated to the University campus by the President. The comprehensive policy elaboration section provides important guidance on effort reporting compliance.

A multi-faceted training approach was initiated by the University in FY08. Targeted training sessions were conducted for key academic business managers and grant related central offices to broaden the policy comprehension. Available resources to support faculty and staff on the implementation of this policy are now in place. Communications to faculty and their respective support staff from the central grant related offices continue to increase the understanding of the effort management and reporting policy. A web based tutorial has been developed to expand University personnel training options on effort reporting. The tutorial is planned to be made available for campus in Q2 FY09.

Cost Accounting Services communicated to appropriate department personnel to conduct quarterly verifications of effort in FY08. Instructions on how to obtain effort reports were and will be included in each quarterly communication. On-going monitoring business practices by Cost Accounting Services such as the evaluating the appropriateness of retroactive salary charges and additional salary payment requests on sponsored agreements continue to occur. All certified effort reports are collected and retained centrally for compliance auditing purposes. Effort reports from each department are sampled for completeness. Audit Services is planning to conduct its independent evaluation in FY09 to ensure that the University is complying with this policy and procedure.
In the spring of 2008, UVM implemented the PeopleSoft’s Billing and AR module for all grant billing and letter of credit draw downs. Since that time, all invoicing and letter of credit draws are based on actual expenses posted in PeopleSoft and not based on conservative estimates. In addition, two Billing Specialist positions were created in GCA to ensure all invoicing and letter of credit draws are performed on a regular, pre-determined schedule. The Billing Specialists received several weeks of hands-on training and have a significant support system in place. A committee with representatives from the University Business Council, the Office of Sponsored Programs, and Grant & Contract Administrative Services was formed in the fall of 2008 to review the research administration lifecycle, research best practices, provide guidance for required policies and procedures, and ensure training in these areas is appropriate.

Grant and Contract Administrative Services added three additional administrator positions in the spring of 2008 to ensure appropriate staffing levels dedicated to preparing financial reports for sponsored projects. The new staff members received several weeks of hands-on training and have a significant support system in place. A committee with representatives from the University Business Council, the Office of Sponsored Programs, and Grant & Contract Administrative Services was formed in the fall of 2008 to review the research administration lifecycle, research best practices, provide guidance for required policies and procedures, and ensure training in these areas is appropriate.

Unauthorized Transactions

The University’s policy is to require all consulting contracts greater than two hundred and fifty thousand dollars be approved by the Board of Trustees (under the Board Delegation Resolution dated September 11, 2004 and as updated in the Contract Approval and Signatory Authority Policy dated June 2, 2008. During our audit two expenditures in our testing were not properly authorized and approved, in accordance with University policy.

Recommendation:

We recommend that the University ensure that all employees understand and have read the current policies and its monitoring controls are strengthened to prevent unauthorized transactions

Management’s Response

The President has alerted all faculty and staff as to these requirements and the location of their related policies on the UVM website. A detailed financial management-operations manual which will include all finance and internal control policies and procedures is currently being developed, and will be made available via UVM’s website to all faculty and staff. In addition, academic and administrative department business managers and administrative assistants with responsibility for financial and/or accounting functions will be trained on the policies and procedures in the new financial management-operations manual.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. We did not identify any deficiencies in internal control that we considered to be material weaknesses, as defined above.
Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit which we would like to bring to your attention.

**Investment Account Reconciliation**

We noted during interim fieldwork that the investment account reconciliation was not being performed timely and unreconciled variances were not being resolved timely. Additionally, for a limited period of time during the year, the investment reconciliation was not reviewed by someone other than the preparer, the reconciliation was prepared by the same person that posts investment transactions.

We noted that the investment account was properly reconciled as of June 30, 2008, and reviewed by someone other than the preparer.

*Recommendation:*

We recommend the University reconcile all investment accounts timely and that there is appropriate segregation of duties to ensure the timeliness and accuracy of transactions recorded in the general ledger.

*Management’s Response:*

The position that normally reconciles investment transactions was vacant until October 2007. The new employee then took some months to learn her job and started her training with other tasks, so it was January 2008 before she could take on the investment reconciliation. She is now reconciling investments in a timely manner and working with the person who posts investment transactions to address reconciling items promptly. The reconciliation is reviewed by her supervisor.

**PeopleSoft Post Implementation Review**

In the prior year we performed a limited post-implementation review. The objective of the review was to evaluate the implementation of the PeopleSoft Financials and HR Applications suite. The scope of this review included security, system development life cycle and data conversion. In 2008 we performed an update of the prior year findings and noted the following key observations:

- PeopleSoft database password profiles are limited to minimum character and maximum logon parameters and do not represent strong passwords.
- Potentially unnecessary user accounts with system administration privileges exist in the production environment of PeopleSoft.

*Recommendation:*

We recommend the University strengthen its password and logon controls and review the list of individuals who have system administration privileges to ensure that only necessary individuals have such open access to the PeopleSoft system.

*Management’s Response*

Passwords have been strengthened and local passwords will be reset annually. Security staff will work with data owners to review the list of those with privileges noted and eliminate those privileges for those for whom job responsibilities don’t require that access.
The Audit Committee
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GASB Statement 39 Whether Certain Organizations Are Component Units

The University does not perform a periodic review to ensure all entities associated with the University are identified as potential component units and are considered for inclusion in the University’s financial statements.

Recommendation:
We recommend the University perform a review of related entities on a periodic basis. This review should include correspondence to all departments within the University to explain GASB 39 and to assist in identifying associated or related entities.

Management’s Response:
For 2009 and beyond, University Financial Services will survey all colleges and divisions for new potential component units on a bi-annual basis.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the University gained during our work to make comments and suggestions that we hope will be useful to you. The University’s written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Audit Committee, management and others within the University and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP