

**AUDIT COMMITTEE  
BOARD OF TRUSTEES  
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE**

A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on February 1, 2018, at 2:00 p.m. in the Livak Ballroom, Room 417-419 Dudley H. Davis Center.

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

**MEMBERS ABSENT:** Ron Lumbra and Ed Pagano

**REPRESENTATIVES PRESENT:** Faculty Representative Barbara Arel, Staff Representative Mindy Kear, and Graduate Student Representative Phill Munson

**REPRESENTATIVES ABSENT:** Vermont State Auditor Douglas Hoffer, Student Representative Jamie LaPierre, and Alumni Representative (appointment pending)

**PERSONS ALSO PARTICIPATING:** Vice President for Finance and Treasurer Richard Cate, Chief Internal Auditor William Harrison, Vice President for Legal Affairs and General Counsel, and Senior Advisor to the President Sharon Reich Paulsen, Chief Information Officer and Dean of University Libraries Mara Saule, Director of Compliance Services Tessa Lucey, Associate Chief Information Officer Julia Russell, Information Security Officer Mark Ackerly, University Controller Claire Burlingham, Chief Risk & Public Safety Officer Al Turgeon, Director of System Architecture and Administration Mike Austin, Assistant Director of Compliance Services Erica Heffner, incoming Trustees Otto Berkes and Sidney Hilker\*\*\*\*, and Renee Bourget-Place and Sara Timmerman of KPMG.

\* Participated via teleconference from 2:00 p.m. to 2:40 p.m.

\*\* Participated via teleconference.

\*\*\*Arrived at 2:40 p.m.

\*\*\*\*Arrived at 3:00 p.m.

Vice Chair Jeff Wilson called the meeting to order at 2:00 p.m.

Vice Chair Jeff Wilson began by introducing and welcoming incoming Trustees Otto Berkes and Sidney Hilker.

**Approval of Minutes**

A motion was made, seconded and voted to approve the November 6, 2017, meeting minutes.

**Presentation of the FY 2017 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

Ms. Bourget-Place of KPMG reported the total federal expenditures for FY 2017 were \$210,288,224. The two major federal programs tested included the Research and Development Cluster in the amount of \$87,041,118 and the Medicaid Cluster in the amount of \$7,059,271.

For the financial statements, the University received an unmodified opinion. For the report on internal control and compliance based on the audit of the financial statements, their opinion was unmodified with no material weaknesses. On the compliance and internal control at the program level, there were no material weaknesses or significant deficiencies. There were no reportable findings.

**Presentation of the National Collegiate Athletic Association Agreed-Upon Procedures (NCAA AUP) Report**

Ms. Timmerman of KPMG presented the results of the report noting that NCAA regulations contain specific minimum agreed upon procedures that must be performed and that KPMG does not issue an opinion. The final report is addressed to the UVM President and is not filed with the NCAA. In the report, KPMG noted no significant adjustments and one observation.

Referencing both the Uniform Guidance audit and the NCAA AUP, Vice President for Finance and Treasurer Richard Cate commented that the University continues to enjoy uneventful audits.

In response to Vice Chair Jeff Wilson's question about whether the Committee needed to approve the Uniform Guidance audit, Ms. Bourget-Place confirmed that no action was required by the Committee.

**Internal Audit Update**

Referring to Attachment 2 of the meeting materials, Chief Internal Auditor William Harrison offered to answer any questions about his Office of Audit Services (OAS) Status report. There were no questions in follow up to report.

**Compliance Annual Survey Results**

Director of Compliance Services Tessa Lucey presented an overview of the eighth annual compliance awareness survey. Referencing Attachment 4 of the meeting materials, Ms. Lucey began by providing background and history of the evolution of the survey. The survey originally included cohorts comprised of full-time staff, full-time faculty, and management. In 2015, the survey was expanded to include cohorts for part-time staff, part-time faculty, graduate students receiving stipends, and temporary employees.

Continuing on, Ms. Lucey was pleased to report, for the second year in a row, overall increases in both awareness and cultural measures.

Referring to a slide indicating that seventy-five percent of survey respondents had not observed misconduct, Trustee Shap Smith asked if it was correct that one out of four people surveyed observed misconduct in compliance and commented that this seemed like a large number. Assistant Director of Compliance Services Erica Heffner clarified that the survey asked if participants had experienced or observed misconduct within the last 12 months and that participants were given the options to respond “yes,” “no,” or “don’t know.” Seventy five percent of participants responded that they had not observed misconduct while the remaining twenty five percent was a combination of those who had or were not sure if they had observed misconduct. Therefore, twenty five percent of the participants did not necessarily witness misconduct.

Moving on, Ms. Lucey was also pleased to report that awareness of the Code of Conduct had increased with some hard to reach groups. The level of awareness for full-time faculty increased from 30 percent in 2016 to 66 percent in 2017. Additionally, awareness for graduate students increased from 6 percent in 2016 to 48 percent in 2017.

Ms. Lucey concluded her presentation with an explanation of how her Office uses the survey results to promote awareness of the Office of Compliance Services, reporting mechanisms, and a culture of compliance.

Representative Phill Munson observed that graduate student awareness was generally low and asked what information was not getting to this cohort and how this can be improved. Ms. Lucey explained that in response to the low graduate student response rate, her office has been working with the Graduate College Dean’s office to distribute this information and will be conducting targeted training.

Vice Chair Jeff Wilson commented on the great progress that has been made in increasing awareness.

### **Enterprise Risk Management (ERM) – Risk and Opportunity Portfolio Update**

Chief Risk & Public Safety Officer Al Turgeon began by thanking his colleagues, Director of Risk Management Mary Dewey and Assistant Director of Compliance Services Erica Heffner, for their collaborative contributions to the risk assessment process. He also commented on how ERM is a team effort and acknowledged the University community for their contributions to the ERM program.

Moving on, Mr. Turgeon, explained the purpose of the ERM program was to provide the Board of Trustees assurance that management is identifying and responding to the risks and opportunities faced by the institution that could impact the University’s mission, vision, strategic goals, reputation and/or competitiveness.

Referring to Attachment 5 of the meeting materials, Mr. Turgeon described the risk assessment process, and explained how each risk and opportunity is scored for impact and likelihood and given an overall score, and how the overall score is reflected on the heat map. He noted three main themes that emerged from the CY 2017 review. These included (1) information technology,

(2) safety, and (3) financial. He concluded by presenting the reporting schedule of Management Response Plans (MRPs) presentations by Responsible Officials to their assigned Board of Trustees' committee.

In response to Trustee Shap Smith's questions about the Voice Communications System Reliability risk, Mr. Turgeon explained that the risk had been in the register and was moved to the portfolio this year because its likelihood had increased.

Trustee Shap Smith followed up by asking if the Committee could expect a recommendation soon. Mr. Turgeon explained that this risk's Management Response plan laid out what the issues are along with an action plan. He further explained that a more comprehensive plan will be presented to the Committee at a future meeting. Mr. Cate noted that the communications system was part of the University's deferred maintenance backlog. Chief Information Officer and Dean of University Libraries Mara Saule commented that the University is looking into several Voice over Internet Protocol (VoIP) products to replace the current outdated system.

Remarking that Deferred Maintenance has been a high-level risk for some time, Vice Chair Jeff Wilson asked Mr. Cate for a brief synopsis of what is being done today and the plans going forward. Mr. Cate explained that the Board of Trustee's approved plan for deferred maintenance will not take care of all the deferred maintenance, but will put the University in fair shape. Mr. Turgeon commented that the Facilities Risk Assessment team is in discussions with Physical Plant leadership regarding a new approach to categorizing deferred maintenance which would redefine which buildings, and how much deferred maintenance in each building should be included to calculate the total value of deferred maintenance.

### **Report on the Results of the 2017 Audit Committee Assessment Survey**

Vice Chair Wilson presented an overview of the results of the 2017 Audit Committee Assessment Survey, noting that overall, the survey participants agreed that the Committee was doing a good job.

### **ERM Updates: Data Center Reliability and Information Security**

Chief Information Officer and Dean of University Libraries Mara Saule introduced two ERM risk management portfolio items: Data Center Reliability and Information Security. She turned the presentation over to Director of System Architecture and Administration Mike Austin to provide an update on the Data Center Reliability risk.

Mr. Austin began by explaining that this risk was about changes that were needed to improve the University's information technology (IT) disaster recovery and redundancy in the event of a major data center failure. He commented on how the IT deferred maintenance funding approved by the Board of Trustees has helped to significantly improve the reliability of the University's primary production systems; however, the University's secondary data center does not provide sufficient redundancy for many critical systems.

On January 1, 2018, the University experienced a data center failure at its primary data center, and IT services went offline for ten hours. The event was caused by extremely cold temperatures freezing both the primary and backup chilling systems.

Mr. Austin confirmed for Trustee Curt McCormack that the equipment shut down automatically and was not damaged.

In conclusion, Mr. Austin discussed long-term plans for data center redundancy including plans for a new more robust secondary data center, improvements to the primary data center's cooling system, and disaster recovery automation software.

Referencing the data center failure in January, Vice President Cate noted the incredible and quick work that Mr. Austin and his team performed under very difficult circumstances to keep the University going. He also clarified that the primary data center is located in leased space and the equipment that failed was not owned by the University.

Trustee Shap Smith asked what the standard was for a University of our size with regard to data centers and what we should expect to have. Mr. Austin explained that he was not aware of any standards; however, the University regularly works with peer institutions to compare systems and goals.

In response to Trustee Curt McCormack's questions about a system shutdown, Mr. Austin explained that the current process is very manual.

Next, Information Security Officer Mark Ackerly offered an update on the University's Information Security program. He provided an overview of compromised account activity and reviewed key enterprise threats such as vulnerability management, malware and malicious attacks, as well as the growing regulatory environment. In conclusion, he discussed work being done to address these key threats including enterprise risk assessments and vendor management.

Referencing Mr. Ackerly's example of Oracle's recent security flaws and the malicious activity that resulted from them, Vice Chair Wilson asked if companies such as Oracle could be held responsible for the damage they created. Mr. Ackerly explained that typical agreements include provisions limiting liability and availability of security patches. He emphasized the importance of timely implementation as well as the resources required for implementing and testing of security patches.

Associate Chief Information Officer Julia Russell noted that today's presentation was a brief update on the ERM Information Security portfolio risk and a deeper dive would be presented at the April 2018 Audit Committee meeting.

## **Executive Session**

At 3:05 p.m., Vice Chair Wilson entertained a motion to enter into executive session for the purpose of discussing confidential attorney-client communications; and contracts premature general public knowledge of which would clearly place the University at a substantial

disadvantage. He noted that the session would take approximately ten minutes and that no action was expected following.

All in attendance were excused from the meeting, with the exception of the Trustees, incoming Trustees Otto Berkes and Sidney Hilker, Vice President for Finance and Treasurer Richard Cate, Chief Internal Auditor Bill Harrison, Vice President for Legal Affairs and General Counsel, and Senior Advisor to the President Sharon Reich Paulsen, and Director of Compliance Services Tessa Lucey.

Director of Compliance Services Tessa Lucey was excused from the second item.

The meeting was re-opened to the public at 3:15 p.m.

### **Adjournment**

There being no further business, Vice Chair Wilson adjourned the meeting at 3:17 p.m.

Respectfully submitted,

Vice Chair Jeff Wilson