

**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 April 8, 2019, at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Bernard Juskiewicz, Vice Chair Shap Smith, Otto Berkes*, David Gringeri, Curt McCormack, and Ed Pagano*

MEMBERS ABSENT: David Aronoff

OTHER TRUSTEES PRESENT: Board Chair David Daigle**, Kevin Christie, Carol Ode, and Samuel Young

REPRESENTATIVES PRESENT: Faculty Representative Barbara Arel, Staff Representative Mindy Kear, Student Representative Jared Percoco, and Graduate Student Representative Aayudh Das

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

PERSONS ALSO PARTICIPATING: Vice President for Finance and Treasurer Richard Cate, Chief Internal Auditor William Harrison, University Controller Claire Burlingham, Chief Risk & Public Safety Officer Al Turgeon, Director of Risk Management and Safety Mary Dewey***, Senior Assistant Director of Environmental Safety and Health Francis Churchill, and Renee Bourget-Place, Sara Timmerman and David Gagnon of KPMG

*Participated via phone.

**Participated via phone until 11:30 a.m.

***Joined the meeting at 11:00 a.m.

Chair Bernard Juskiewicz called the meeting to order at 10:05 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the January 31, 2019, meeting minutes.

Presentation of the Fiscal Year (FY) 2019 External Audit Engagement Plan

Lead Audit Engagement Partner, Renee Bourget-Place reviewed KPMG's plan for the FY 2019 audit engagement including the scope of work, deliverables, and the members of the client services team. She also reviewed the objectives of a financial statement audit and materiality. Lastly, she explained KPMG's audit approach and timeline.

Trustee Otto Berkes asked if something with a small dollar amount that could create significant reputational damage would rise to materiality in KPMG's assessment. Ms. Bourget-Place explained that there is no set value for materiality; however, KPMG must use their judgment to determine material impact on the financial statements.

Vice Chair Shap Smith asked if KPMG considered concerns about demographics and tuition trends when determining materiality and risk. Ms. Bourget-Place responded that they did not when determining materiality but, they did when conducting their risk assessment. Vice President for Finance and Treasurer Richard Cate noted that bond rating agencies also look at demographics and tuition trends.

Next, Lead Audit Engagement Manager, Sara Timmerman reviewed KPMG's preliminary risk assessment including significant judgments and estimates, significant activities, and information technology matters.

Moving on, Ms. Timmerman reviewed the criteria that KPMG uses to select the major programs to be audited under the Uniform Guidance. At this time, KPMG plans to audit one program: the Student Financial Assistance cluster. KPMG is not planning to audit the Research and Development cluster this year because there have been no findings in the last two audits.

In conclusion, Ms. Bourget-Place offered an overview of KPMG's proposed addendum to their fee schedule for additional work related to the implementation of Governmental Accounting Standards Board (GASB) 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Following KPMG's presentation, Chair Juskiewicz presented the following resolution for approval:

Resolution Authorizing Retention of External Audit Firm for the Fiscal Year (FY) 2019 Mandatory Annual Audits and Authorize Amendment to the External Audit Contract Fee Schedule

WHEREAS, at its February 2, 2017, meeting the Audit Committee authorized and recommended to the Board of Trustees to authorize the Vice President for Finance and Treasurer to enter into a contract to obtain external audit services to conduct the annual financial statement audit and other related audits of the University for five consecutive years during the period January 1, 2017, through December 31, 2021, at a total contract price not to exceed \$1,745,000, with continuation of said contract subject to an annual performance review by the Audit Committee; and

WHEREAS, KPMG LLP has proposed an addendum to the fee schedule set forth in its proposal for services dated December 2, 2016, to conduct incremental audit effort for the mandatory annual audit of the financial statements for the fiscal years ending June 30, 2019, June 30, 2020 and June 30, 2021; and

WHEREAS, Management has reviewed the proposed addendum to the fee schedule and recommends an adjustment to the fee schedule of \$6,000 for each annual audit for a total of \$18,000;

BE IT RESOLVED, the Committee authorizes the Committee Chair to amend the fee schedule set forth in KPMG LLP's proposal for services dated December 2, 2016, to conduct the mandatory annual audit of the financial statements in the amount of \$18,000; and

BE IT FURTHER RESOLVED, the Committee authorizes and directs the Committee Chair to retain KPMG LLP, to conduct the mandatory annual audit of the financial statements and compliance audits for the fiscal year ending June 30, 2019, in accordance with the fee schedule set forth in KPMG's proposal for services dated March 9, 2017 as amended; and

BE IT FURTHER RESOLVED, that the annual audit shall be conducted in compliance with the requirements of the University Bylaws and state and federal law.

A motion was made, seconded, and the resolution was approved unanimously as presented.

Higher Education Industry Update

Renee Bourget-Place and David Gagnon, Engagement Quality Control Review Partner for the UVM Audit and KPMG's National Audit Leader for Higher Education, provided an update on the state of the higher education industry. Ms. Bourget-Place reviewed Governmental Accounting Standards Board (GASB) statements effective in 2019. She noted that GASB 87 Leases becomes effective June 30, 2021, and will have a significant impact on the University.

At Chair Juskiewicz's request, University Controller Claire Burlingham elaborated that in preparation for GASB 87, the University is currently identifying its inventory of leases and will have to account for approximately 350 to 450 leases. In preparation for this standard, the University has purchased and is implementing the PeopleSoft lease administration module.

Vice Chair Shap Smith asked how the value of lease obligations are assessed. Ms. Bourget-Place explained that the obligation is the asset.

Next, Mr. Gagnon offered an overview of Audit Committee priorities for 2019, highlights from Moody's and Standard & Poor's (S&P) outlook on higher education, sector fundraising, endowments, and affordability and value.

Vice Chair Shap Smith asked if rating agencies are looking at regional differences and what concerns should the Audit Committee consider. Ms. Bourget-Place and Mr. Gagnon noted that the University's Enterprise Risk Management program was very robust and had already identified many of the challenges faced by schools in the northeast.

Referring to the number of recent closures of institutions of higher education, Chair Juskiewicz asked if there were any projections about other closures. Mr. Gagnon responded that both

Moody's and S&P anticipate a rapid acceleration in the percentage of school closures and mergers.

Internal Audit Update

Chief Internal Auditor Bill Harrison began by referring the Committee to the summary of internal audit activity and the status of the internal audit work plan as of March 31, 2019.

Mr. Harrison highlighted the results of the Office of Audit Services (OAS) research advisory and laboratory safety projects. Regarding research advisory projects, OAS reviewed the efficiency and effectiveness of research administration practices in four academic units. Mr. Harrison summarized the primary themes identified in the reviews and recognized several initiatives undertaken by Sponsored Project Administration to address these issues. Mr. Harrison noted that the laboratory safety project was done at the request of the College of Engineering and Mathematical Sciences (CEMS). In its report, OAS offered several suggestions for enhancing the college's safety culture. In response to this work, two academic units have requested that OAS conduct similar assessments.

Next, Mr. Harrison offered an overview of the Three Lines of Defense model. He explained that the model is used to enhance communication and coordination across an organization and is important when operating in a highly decentralized environment like the one at the University. All three lines of defense are required for effective risk management and control.

In conclusion, Mr. Harrison provided a summary of audit follow-up activity. He highlighted one report that was coded red: Key and Electronic Access Systems. He explained that this report was coded red because of the aging of the report and management's lack of progress in addressing the remaining open recommendation in a timely manner.

After a brief discussion about controls related to physical keys and electronic accesses, Chair Juskiewicz suggested adding the topic to the ERM heat map.

Review Calendar Year 2019 Enterprise Risk Management (ERM) Process

Chief Risk & Public Safety Officer Al Turgeon began with a historic overview of the ERM program. He then 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.

In conclusion, Mr. Turgeon reported that in response to solicited comments about the ERM process, stakeholders generally felt the program was working and served its intended purpose.

Trustee Otto Berkes asked if there was a way to illustrate the amount of effort spent on each item on the heat map. Mr. Turgeon responded that this could be considered and he will consult with members of the Enterprise Risk Management Advisory Committee (ERMAC) and the President's Advisory Committee on Enterprise Risk Management (PAC-ERM).

Enhance Safety Culture Report (*ERM #9 New Opportunity*)

Chief Risk & Public Safety Officer Al Turgeon began by introducing the Enhance Safety Culture opportunity and turned the presentation over to Director of Risk Management and Safety Mary Dewey and Senior Assistant Director of Environmental Safety and Health Francis Churchill.

Mr. Churchill explained the importance of focusing on a culture of safety at the University. Mr. Churchill and Ms. Dewey provided examples of accidents at universities and described how consequences often extend beyond the initial incident.

Next, Ms. Dewey provided a historical summary of the University's accident-related claims, reports and direct costs. She also reviewed the results of Risk Management and Safety's 2017 Administrative Unit Review noting that the general theme of the external review committee's recommendations was that safety is everybody's responsibility and leaders at all levels need to identify safety partners and communicate values and expectations with regard to safety.

Moving on, Mr. Churchill and Ms. Dewey provided a summary of the University's safety functions, their effectiveness, future actions, and initiative timeline.

Mr. Turgeon concluded the presentation by explaining why the ERM portfolio item "Enhance Safety Culture" was considered an opportunity. He also illustrated the systematic approach being used to enhance the safety culture across campus.

Chair Juskewicz offered support from the Audit Committee on the safety culture initiative.

Adjournment

There being no further business, the meeting was adjourned at 12:10 p.m.

Respectfully submitted,

Chair Bernard Juskewicz