

VSAC Audit Committee Minutes

October 17, 2016

10:30 a.m.

Board Room, VSAC Offices

10 East Allen Street

Winooski, VT

Attendance

Committee Members Present: David Coates (Chair), Beth Pearce, and Michael Smith

Committee Members Absent: Sarah Buxton and State Auditor Representative Tanya Morehouse

Other Board Members Present: Dodie Mitchell

External Auditors Present: Mark LaPrade, CPA, CGMA, Principal and Rob Smalley, CPA, Manager of BerryDunn

Staff: Scott Giles, Mike Stuart, Tom Little, Laurie Oliver, Patrick Leduc, and Kristi Rocheleau

The meeting was called to order at 10:31 a.m. and a quorum was declared present. The Chair reviewed the agenda with the Committee.

Approval of Minutes

Upon a motion made by Michael Smith and seconded by Beth Pearce, the Committee voted unanimously to approve the minutes of the May 23, 2016, Committee meeting as presented.

FY16 External Audit Results

BerryDunn auditors Mark LaPrade, CPA, CGMA and Robert Smalley, CPA, presented FY2016 External Audit results and highlighted the following:

- *Required Communications* – Mark LaPrade reviewed the required communications, highlighting the adoption of the required accounting policy GASB Statement No. 72, *Fair Value Measurement and Application*. Mr. LaPrade also provided a general overview of the audit procedures conducted related to fraud risk assessment.
- *Financial Statement* - Rob Smalley noted that the opinion on the financial statements is *Unmodified*. There were no material weaknesses in internal controls over financial reporting identified or audit adjustments, or uncorrected adjustments.
- *Uniform Guidance Reports* – Rob Smalley reminded the Committee that the former A-133 audit is now referred to as the Uniform Guidance Report, required by Government Auditing Standards (GAS). The Federal Family Education Loan Program (FFELP) program was the only major program covered by the audit and resulted in an *Unmodified* opinion on compliance

of the major program. There were no material weaknesses identified for internal controls over compliance identified over the course of the audit.

- *Agreed-Upon-Procedures (AUP) Report* – This engagement was required by Moody’s Investor Services as part of the 2015 bond issuance. BerryDunn completed a compliance audit with assistance from Internal Audit and issued a clean report with no exceptions.

The Committee then discussed the overall audit proceedings with Mark LaPrade and Rob Smalley. The audit came in under the estimated hours which will result in a fee adjustment for VSAC.

Mark LaPrade and Rob Smalley exited the meeting at 11:09 a.m.

Upon a motion made by Beth Pearce and seconded by Michael Smith, the Committee voted unanimously to recommend that the Board accept the FY16 External Audit Report and Uniform Guidance Report as presented.

Internal Audit and Risk Management Report

Laurie Oliver presented the final status of the FY16 Internal Audit Plan, noting the addition of two external activities announced by the U. S. Department of Education and the Government Accountability Office (GAO) as well as one additional internal audit activity related to the SCRA Automation project. There were three discretionary risk-based audits on the Plan that were not completed due to a lack of resources during the year. All other audits on the Plan had been completed with one exception for which testing is substantially complete with supervisory review and final reporting remaining. Laurie also highlighted that although VSAC announced an exit of the Federal Loan Servicing in June, contractual audit requirements continued through October, including the extension of the scope of the final SSAE 16, SOC, Type II report through August 31, 2016.

The Committee then transitioned to the review of the Internal Audit & Risk Management Status Report, where Internal Audit resources since the May 23, 2016 were primarily dedicated to supporting the completion of final audit requirements for the direct loan servicing program.

Laurie also communicated that she is working with Scott Giles and Tom Little to develop a FY17 Internal Audit Plan that will integrate the results of the Enterprise Risk Management (ERM) activities. This will be shared at the January meeting.

2015 Form 990 Review

David Coates moved the Committee to the review of the Form 990 prepared by Bruce Hicken and previously distributed. Tom communicated that there are no changes; however, VSAC will be adding a narrative to speak to the mission and purpose for future reports. The Committee members stated their support of this approach.

Upon a motion made by Beth Pearce and seconded by Michael Smith, the Committee voted unanimously to approve the 2015 Form 990 for submission, as presented.

Risk Management

The Committee reviewed the Fraud Risk materials previously distributed. Tom Little provided background for the risk and communicated that he and Laurie will monitor the risk in a post reduction-in-force environment to determine if the smaller organizational structure continues to support key controls including the segregation of duties for critical functions, and authorization limits are approved and documented. The Board expressed their support for the approach.

General Counsel then provided its annual Fraud Report as required by the Audit Committee work plan. Key highlights:

- General Counsel is aware of no reported or unreported fraud at the corporation.
- A summary of the 2015 Federal Trade Commission (FTC) Red Flags Report was shared in January 2016, which that covers potential fraud threats arising from student loan origination and servicing operations. General Counsel is the whistle-blower policy point of contact for all employees. No one in FY 2016, or since then, has brought a whistler-blower concern to General Counsel. General Counsel in FY 2017 is set to assist the Audit Committee in undertaking a periodic review of that policy, and also the Board's code of conduct and conflict of interest disclosure policies.
- There is one *pro se* lawsuit pending against the corporation, as previously reported to the Audit Committee. The claims made in the suit are not material in the context of the corporation's financial statements. VSAC's attorneys for the claim evaluate it as a groundless claim; it has twice been dismissed, and the plaintiff has until October 31 to refile. Ms. Oliver also shared other areas of the corporation that are inherently susceptible to fraud within the corporation which are also considered as part of the annual risk assessment in determining the Internal Audit Plan.
- General Counsel has nothing further to report at this time.

Board Training & Development

The Committee discussed potential training needs and opportunities. The Executive Management team and Director of Internal Audit & Risk Management will share curated professional and board development articles and training materials with the Audit Committee and Board for professional development purposes. In addition, the Executive Management team will revise and present Finance 101 training as it had done in the past and potential webinar options for the Finance or Audit Committee to critique prior to delivering to the full Board or committees. The Committee also discussed the potential for collaborative risk management training opportunities with external partners.

Other Business & Adjournment

Tom Little notified the Committee that he will follow up with the State Auditor regarding the status of the membership of State Auditor's Office on the Audit Committee moving forward. Agendas and meeting materials continue to be forwarded to the State Auditor's Office.

There being no other business, the Committee adjourned at 11:57.

Respectfully submitted,

Tom Little
Assistant Secretary