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VERMONT STATE COLLEGES

CASTLETON STATE COLLEGE
COMMUNITY COLLEGE OF VERMONT
JOHNSON STATE COLLEGE
LYNDON STATE COLLEGE
VERMONT TECHNICAL COLLEGE

MEMORANDUM

TO: VSC Audit Committee
Linda Milne, Chair
Michelle Fairbrother
Tim Jerman
Karen Luneau
Martha O'Connor
Gary Moore, *ex officio*

FROM: Tom Robbins, Vice President, Chief Financial Officer
William Reedy, Vice President, General Counsel

DATE: May 16, 2013

SUBJ: Audit Committee Meeting scheduled for May 23, 2013

The Audit Committee of the VSC Board of Trustees will meet from 9:00 – 10:30 a.m. in the Stearns Center Performance Space at Johnson State College. The agenda and back up material for the meeting are enclosed.

If you have any questions, I can be reached at (802) 224-3022.

Thank you.

cc: Trustees
Council of Presidents
Business Affairs Council
Bradley Kukenberger, Dept. of Finance and Management
Douglas Hoffer, State Auditor

**Board of Trustees
Audit Committee Meeting**

May 23, 2013

AGENDA

A. ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the February 13, 2013 Meeting of the Audit Committee

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Review FY2013 Audit Plan with O'Connor & Drew
2. Discuss FY2012 Audit Advisory Comments
3. Discuss FY2013 Internal Audit

A. ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the February 13, 2013 Meeting of the Audit Committee

**Unapproved minutes of the Audit Committee meeting Wednesday,
February 13, 2013**

Note: These are unapproved minutes, subject to amendment and/or approval at the subsequent meeting.

The Audit Committee met on February 13, 2013 at the Chancellor's Office in Montpelier.

Committee members present: Michelle Fairbrother (by phone), Tim Jerman, Linda Milne (Chair), Martha O'Connor

From the Chancellor's Office: Tim Donovan, Annie Howell, Bill Reedy, Tom Robbins, Deb Robinson

College Presidents: Joe Bertolino, Phil Conroy, Joyce Judy, Barbara Murphy, Dave Wolk

From the colleges: Wayne Hamilton, Geoff Lindemer, Barbara Martin, Sharron Scott

From the public: M. Jerome Diamond; Douglas Hoffer, State Auditor; Christopher Macfarlane; Steve Vantine, State Auditor's Office

Chair Milne called the meeting to order at 2:00 p.m.

A. ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the May 23, 2012 Meeting of the Audit Committee
Chair Milne requested the following corrections in section A.2. of the minutes of the May 23, 2012 meeting:

2. Review and Approval of FY2011 Draft Audited Financial Statements and A-133 Report

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The last report was the A-133 Audit, which reports on VSC federal expenditures and compliance with federal regulations related to funds received from the US government. They briefly reviewed each item.

David Dilulis reviewed a handout that highlighted the required communications, financial statement fraud risks, upcoming GASB pronouncements and audit advisory comments. The committee reviewed management responses to the advisory comments and agreed to add the Audit Committee Chair to the whistleblower notification process.

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The committee unanimously approved the minutes of the May 23, 2012 meeting as amended.

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Discuss FY2012 Audit Advisory Comments

Chair Milne asked to review the progress of the FY2012 advisory comments. CFO Robbins stated that the BAC and Finance Team review the advisory comments at almost every meeting to ensure that we are continually trying to improve. CFO Robbins suggested that the applicable college provide an update on their advisory comment. The first advisory comment relates to reporting PELL disbursements with regard to the 30-day reporting requirement. President Judy stated that CCV has modified their reporting practice to weekly so they will be well within the 30-day requirement. The next comment related to demolition costs of a building being expensed instead of capitalized as part of a new structure. President Wolk stated that Castleton will ensure demolition is accounted for properly going forward. CFO Robbins stated that the finance staff will look at the VSC business policies

to see if any should be revised with regard to accounting rules. CFO Robbins then noted that IT has been working on the new fixed asset software to allow it to generate the needed closing reports. Controller Robinson noted that these reports are now available.

A discussion then ensued with regard to the whistleblower policy and how it is currently set up. CFO Robbins stated that people could access the hotline via phone or the web. There are currently seven VSC staff that receive reports. The type of whistleblower notification (legal, finance, administrative, HR) that they receive depends on their position in the VSC. General Counsel Reedy stated that since inception of the hotline five years ago we have received six notifications: four were in regard to academics, one was policy related and one was consultant related. Trustee O'Connor suggested that Chair Milne receive all notifications that come through the hotline. CFO Robbins will have Chair Milne set up as a hotline notification recipient this month.

CFO Robbins said that there is a process in place for deleting check signers off of the VSC bank accounts. Twice a year the banks send the colleges the list of authorized signers. The colleges review the list, adjust accordingly and send back to the bank.

General Counsel Reedy discussed Clery Act reporting with regard to multiple academic sites – CCV alone has twelve sites. A consultant would be expensive and we need to have VSC expertise around the colleges. President Judy suggested that a solution might be to get all of the Clery Act Compliance staff from around the system together to go over where we are and where we need to improve, and to have them meet on a periodic basis to continually review the VSC compliance status. General Counsel Reedy will arrange a first meeting. CFO Robbins reviewed the last two advisory comments – they are payroll not being accrued consistently and banks reconciliations not being reviewed on a timely basis. Robbins said that these need to be done properly and that the Finance Team has been charged with ensuring that these are taken care of.

2. Discuss FY2013 Internal Audit Plan

CFO Robbins stated that generally there are five areas chosen for internal audit but due to the complexity of the ImageNow review, four are being done this year. He then read the sixteen areas that have been reviewed by internal audit over the last five years. ImageNow review last year was documenting procedures for this new software. This year, the audit will review whether the colleges are following those procedures. The areas include the review of both financial and policy compliance. He noted that the internal audit field work will be complete on March 13th. CFO Robbins then reviewed the plans for the payroll, grant reporting, reconciliation and ImageNow audits.

3. Discuss Continued Efforts at Fraud Prevention

CFO Robbins stated that the business officers determined that the first priority for fraud prevention was payroll. Payroll is being reviewed at three colleges this year. Chair Milne noted that the internal audit program is not as thorough as the VTC payroll audit last year. Robbins agreed and stated that a lot of payroll work has been done throughout the year finding and correcting inconsistencies across the VSC with regard to policies and practices. Two new reports have been created this year; one to alert management when their employees' wages or hours have changed from the prior payroll and another to alert management when employees or supervisors do not sign their electronic timesheets. In addition, other reports are in development showing changes in pay from the prior pay period. These will be reviewed by management staff other than Payroll Directors each pay period.

CFO Robbins then discussed cross training, separation of duties and other compensating controls used for other areas such as accounts payable, accounts receivable, etc.

The Audit Committee meeting adjourned at 2:50 p.m.

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Review FY2013 Audit Plan with O'Connor & Drew

Below is the agenda for the O'Connor and Drew discussion with the audit committee.

- Discuss prior year audit
- Audit approach
- Time line for audit planning and audit field work, A-133 audit
- Increased number of programs to audit for A-133 audit
- Any significant changes at any of the Colleges' Management
- Improvements in audit process, what has worked in past, what can be improved upon
- New GASB Pronouncements
- Statement on Auditing Standards 99 and Fraud Risk Assessment
- Significant accounting transactions from July 1, 2012-Present or any anticipated transactions before year end that could materially affect the financial statements
- Any legal issues or pending litigation
- Other matters
- Update on prior year management letter comments and current status

Dates for audit planning, field work, and review of financial statements:

Audit Planning:

- Chancellor's Office, Vermont Technical College, Castleton State College
 - Monday May 13th – Friday May 17th
- Lyndon State College and Johnson State College

- Monday May 20th – Friday May 24th
- Community College of Vermont
- Tuesday May 28th-Friday May 31st

Audit Field Work:

- Johnson State College and Lyndon State College
 - Monday August 5th – Friday August 9th
- Castleton State College and Vermont Technical College
 - Monday August 12th – Friday August 16th
- Community College of Vermont
 - Monday August 19th – Wednesday August 21st
- Chancellor's Office
 - Week of August 26th (Perform audit field work)
 - Week of September 9th (audit of financial statements)

2. Discuss FY2012 Audit Advisory Comments

Below is the current status of the FY2012 audit advisory comments.

Reporting Student Financial Aid Payment Data to COD (Common Origination and Disbursement System)

Current situation:

Colleges must report student financial aid payment data to the COD (Common Origination and Disbursement System) within 30 calendar days after the school credits the student account. During our financial aid testing, we noted an error with regard to this timing. The Community College of Vermont failed to report a PELL grant disbursement for a particular student. Per the student billing account, the PELL grant funds were credited to this student on April 4, 2012, therefore, the last reporting day within the allowable time frame was May 4, 2012. The College

Administration reported this disbursement to the COD on May 15, 2012 (11 days after the deadline).

Auditor's recommendation:

We recommend that management review its control procedures for reporting student financial aid data to the COD to insure proper controls are in place to insure that all information is reported in a timely manner.

Management's response:

The Community College of Vermont is now sending Pell disbursement information to COD on a weekly basis to reduce timely reporting errors.

Status January 2013 (CCV):

CCV continues to report Pell and Direct Lending disbursements on a weekly basis to avoid any gaps in the 30-day reporting requirement.

Status May 2013 (CCV):

CCV continues to report Pell and Direct Lending disbursements on a weekly basis to avoid any gaps in the 30-day reporting requirement.

Construction Costs

Current situation:

During our year-end audit procedures of capital assets at Castleton State College, we noted that a pavilion was built. As part of this construction, the College had demolition costs related to this project. These costs were expensed; however, they should have been added to the cost of the new capital asset.

Auditor's recommendation:

We recommend the Colleges review all construction costs during the year to ensure proper expense/capitalization procedures. Also, the Colleges should consider adding demolition type costs to its capital asset policy so that all accounting personnel understand the correct accounting for a similar type transaction. We reviewed two other State College's capital asset policies and they had demolition cost included as part of their capital asset policy.

Management's response:

Castleton will review project costs and include the demolition costs with the construction of the new capital asset. The adjustment will be made to reflect

these costs upon the completion of the new asset. We will also revise the VSC capital asset policy to include demolition type costs.

Status January 2013(CSC and OC):

Castleton still plans on reviewing project costs and including the demolition costs with the construction of any new capital asset. Any adjustment will be made to reflect these costs upon the completion of a new asset.

Rather than add single items here and there to our policies we will conduct a review of the VSC business policies over the next year or so to see where they can be improved.

Status May 2013 (CSC):

Castleton will continue to review all project costs and account for them appropriately.

The VSC has begun looking at the various business policies for potential revisions.

Capital Asset Software

Current situation:

During the fiscal year, the Colleges implemented a new fixed asset software. This helped to improve the efficiency and effectiveness of auditing the capital assets. We did note that there are specific reports that the Colleges were not able to run which included a roll forward of the accumulated depreciation, current year depreciation expense, and ending accumulated depreciation.

Auditor's recommendation:

We recommend the Colleges work with their IT departments to prepare specific reports that would include the roll forward of accumulated depreciation in total as well as on an asset by asset basis.

Management's response:

We will work with IT to have this report created.

Status January 2013 (OC):

IT is committed to completing this report in time for the audit.

Status May 2013:

The report is completed and will be used for FY13 audit papers.

Whistleblower Policy**Current situation:**

The Colleges have a formal whistleblower policy. As part of this policy, there is an outside company that handles part of this function. (EthicsPoint) When an incident has been reported, there is a process by which certain members of management are notified and proper action is to be taken.

Auditor's recommendation:

We recommend a process change be implemented by which a member of the audit committee (for example, the audit committee chairperson) is also notified to insure that appropriate management action is being followed in accordance with policies and procedures of the Colleges.

Management's response (OC):

We will incorporate the Audit Committee Chairperson into the whistleblower notification process.

Status January 2013 (OC):

We will discuss with the Audit Committee if it makes sense to add an Audit Committee member as a whistle blower hotline recipient.

Status May 2013:

The Audit Committee has added their Chair as a hotline report recipient.

Authorized Check Signers**Current situation:**

We noted former employees who are still listed as authorized check signers on certain bank accounts of the Colleges.

Auditor's recommendation:

We recommend the Colleges review with its banks the authorized check signers for each of its accounts on a periodic basis.

Management's response:

We have updated the check signers on the accounts identified. We are also implementing a regular review of check signers, to ensure that they are all current employees.

Status January 2013 (OC):

The Chancellor's office is keeping a current list of all signers, and is looking at the possibility of checking this against current payroll records to ensure all signers are current employees.

Status May 2013 (OC):

We are presently verifying the validity of the authorized signers on all VSC bank accounts.

Clery Act ComplianceCurrent situation:

The Clery Act has become a "hot topic" issues given the incidents at Virginia Tech and Penn State over the past few years. In these uncertain times, campus security and crime reporting on campus are very important issues. Although these issues may not seem like issues auditors look at, they effect the overall risk assessment of audits.

Auditor's recommendation:

The College should review all requirements of the Clery Act and the Annual Campus Security Report and update accordingly to ensure the disclosure of all policy statements pertaining to their Clery compliance.

The Annual Campus Security Report or notification that it has been published on the College's website is required to be distributed to all students and employees by October 1st for the previous calendar year.

We also recommend that the College evaluate its Clery compliance on an annual basis.

Management's response (CO):

The VSC will review its compliance with the Clery Act. Since this issue falls under the purview of the Dean of Students they will lead this process.

Status January 2013 (OC):

We are currently reviewing the auditor's findings and will focus our efforts accordingly.

Status May 2013 (OC):

The OC and the colleges are working with a consultant to review our Clery Act compliance. We will strengthen our systems and reporting where needed.

"Best Practices"Current situation:

During our year-end audit procedures, we noted the following instances where procedures were not being performed consistently between all of the Colleges.

During year-end audit procedures of accrued payroll, we noted that the faculty payroll accrual was not being calculated on a consistent basis between all of the schools. We noted that all schools except Castleton State accrued 2 pay periods. Castleton State accrued for 3. We also noted that Johnson State double accrued .5 of the faculty payroll because they included them in the regular accrued payroll balance.

During year-end audit procedures, we noted on Castleton State College that the bank reconciliations for the Perkins cash account were not reviewed and signed off on as reviewed by another individual on a timely basis.

Auditor's recommendation:

We recommend that management institute controls to ensure that all schools are performing identical procedures for all accounts between all of the Colleges.

Management's response:

Castleton will request an email from Payroll to document the accrual period for 26-pay contracted faculty and then this date will be verified with other schools. JSC will verify that the 26 pay faculty accrual is excluded from the regular payroll accrual.

The Perkins bank reconciliations are often submitted bi-monthly for approval, depending on the timing of reports received necessary to perform the reconciliation. Monthly reports will be submitted for approval.

Status January 2013 (CSC and JSC):

JSC will verify that the 26 pay faculty accrual is excluded from the regular payroll accrual at year end.

Castleton still plans on receiving an email from payroll to verify the accrual period of the 26-pay Faculty at the end of the fiscal year.

CSC Perkins reconciliation reports are being submitted to the Dean of Administration on a monthly basis rather than bi-monthly.

Status May 2013 (CSC and JSC):

The colleges will focus on getting the payroll accrual correct and consistent at year end.

CSC is doing their Perkins reconciliation on a timely basis.

3. Discuss FY2013 Internal Audit

We have concluded our internal audits at the colleges with the final college report attached.

The four areas of focus during FY2013 were:

Payroll

During FY2013/FY2013 we reviewed the areas where we could have exposure for fraud payroll topped the list. It is important to make sure that employees are paid according to their contractual amounts and any deviations have written justification. In addition, employees (staff and students) should accurately and completely fill out their electronic time sheets and that time should be approved electronically by their supervisor.

During the review it was noted that some electronic time sheets were not appropriately filled out or signed. There were a couple of instances where there was no supporting documentation for contracts or stipends.

Bank Reconciliations

Bank reconciliations must be done in a timely manner to detect errors or fraud. The external auditors have made note that some colleges not doing their reconciliations on a timely consistent basis so we wanted to review on an interim basis.

Bank reconciliations were done in a timely manner. However there are reconciling items that need to be researched and resolved. In addition, reconciliation postings should be done on a monthly basis.

Grant Reporting

To support a multitude of programs the VSC receives grant funds from federal, state and private industry sources. Due to the oftentimes strict grant rules, and the importance of our continuing to receive these funds, we decided to review some of the FY2013 grants to check for grant compliance.

To be in compliance with Policy 408 the colleges must submit VSC Forms A&B and C when appropriate. The colleges will review this policy to ensure compliance.

ImageNow

ImageNow is the application that the VSC is using to digitize paperwork so we can scan, archive, retrieve thereby allowing the elimination of the paper copies.

The internal audit for ImageNow has spanned FY2012 and FY2013. During FY2012 since ImageNow was new the internal audit focused on documenting processes and procedures. During FY2013 internal audit focused on seeing how the colleges were complying with their policies and procedures.

The ImageNow side of the internal audit went well, however, there were some findings where invoices were either not approved or not approved by the appropriate person.

ImageNow has been implemented successfully in accounts payable, accounts receivable, payroll and financial aid. We continue to review where this tool can be utilized.

The attached FY2013 internal audit reports are attached for review.

- CCV
- CSC
- JSC
- LSC
- VTC



Vermont State Colleges

Internal Audit Report

Community College of Vermont
Grant Reporting
ImageNow
 Accounts Receivable
 Payroll

February 2013

Summary

Grant Proposals & Reporting

Scope and Objectives

The Vermont State Colleges' External Funding: Proposals for Grants (Policy 408) defines the process for reviewing and acting upon requests, proposals, applications, and renewals for grant funding from public and private sources. This policy identifies the steps through which funding proposals must be processed up to and including approval by the Board of Trustees.

The objectives of the grant proposals and reporting audits will be to determine if:

- Applicable grant forms, as identified in Policy 408, are prepared and submitted to the Office of the Chancellor by the schools.
- Subsequent award or denial notifications are submitted to the Office of the Chancellor in a timely manner.

Methodology

The audit approach included a discussion with the Staff Accountant regarding CCV grants. A listing of CCV's current grants was previously prepared and all fourteen grants were chosen for review.

Findings, Recommendations, and Management Response

Findings/Testing

1. Nine grants have programmatic and/or financial reporting. Programmatic reporting is done by the grant manager.
2. Two grants require no periodic reporting.
3. Two grants, the reporting is done when invoicing.
4. For most of the grants with programmatic reporting, the Business Office is not provided with a copy.
5. Documentation, as required by Policy 408, has been provided to the Office of the Chancellor for all fourteen grants.

FINAL**Recommendations:**

To monitor completion of required programmatic reporting, recommend Business Office be provided a copy of the report or some other communication confirming that it has been completed.

Management Responses:

Currently at CCV, programmatic reporting responsibility falls to the grant program manager. The Business Office prepares the financial reporting for grants as required in the grant agreement. Since some programmatic grant reporting involves confidential student data, CCV considers additional copies of required programmatic reporting unnecessary and a duplication of efforts.

CCV will consider options for the Business Office to confirm compliance with programmatic reporting requirements of grants. We will work with the Academic Dean's office, responsible for overall grant management, to coordinate a process to either confirm or document programmatic reporting for grants.

Summary

ImageNow – Accounts Receivable

Scope and Objectives

ImageNow (IN) is used to scan, rout for approval(s), archive, retrieve, and eventually destroy electronic copies of documents.

The objectives will be to determine:

- Documents scanned are complete and legible
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow.

Methodology

The audit approach included a discussion with the Student Accounts Manager regarding ImageNow procedures for AR refunds, miscellaneous adjustments, withdrawals, and

FINAL

archiving of records. A test sample of thirty students was selected. One to three documents for each student were reviewed in ImageNow.

Findings, Recommendations, and Management Response

Findings/Testing

1. ImageNow AR Procedures
 - A. AR Refunds process through ImageNow is consistent with established procedure. It was noted, however, that documentation for two student credit card refunds over \$2,500 in the test sample did not include a second approval.
 - B. Cash Management and Withdrawals through ImageNow is nearing implementation. Training for heavy users is scheduled for mid-March.
 - C. Collections documentation in ImageNow has been implemented. All correspondence is linked to the respective student.
 - D. Adjustments are processed and linked to the respective student through ImageNow according to established procedures.
 - E. Other miscellaneous documents scanned through ImageNow
2. Scanned documents were found and readable.
3. Documents are linked by student ID.
4. Per Student Accounts Manager, paper handling has been reduced by approximately 80% through the use of ImageNow. Documentation created or received electronically is processed and printed directly to ImageNow.

Recommendations:

Raise awareness among staff of the requirement for second approval on student refunds over \$2,500.

Management Responses:

CCV will continue to educate and train staff on the requirements of a second approval on student account refunds greater than \$2,500. We will review our procedures for credit card refunds with the staff to ensure proper understanding of the process and approval requirements.

FINAL**Summary**

ImageNow – Payroll

Scope and Objectives

ImageNow is used to scan, archive, retrieve, and eventually destroy electronic copies of documents.

The objectives will be to determine:

- Documents scanned are complete and legible
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow.

Methodology

The audit approach included a discussion with the Director of Payroll & Employee Services to review CCV's procedures in their use of ImageNow. A random selection of 30 employees was made and various documents reviewed.

Findings, Recommendations, and Management Response**Findings/Testing**

1. ImageNow procedures
 - A. The Director of Payroll & Employee Services prepares and scans paper and/or electronically received documents into ImageNow.
 - B. Documents are linked to the respective employee.
 - C. Original paper documents, after scanning, review, and linking, are placed in a hold folder for approximately one to two weeks, and then shredded.
2. CCV procedures are consistent with Payroll Team established procedures.
3. The Director of Payroll & Employee Services has access to view all other schools employee documents. Back up staff is not.
4. Randomly selected 30 employees (20 staff and 10 students) and reviewed various linked documents with Director of Payroll & Employee Services. All documents were good quality and appeared to be complete.

Recommendations:

Continue to work with other VSC schools Payroll areas to maintain “best practice” for consistency but still meet any of CCV’s particular needs.

Management Responses:

CCV welcomes continuing discussions with the VSC colleges to review procedures for opportunities to adopt “best practices” within the system. CCV recognizes and supports the importance of consistency with payroll and working within the system to develop processes to meet specific needs of CCV.



Vermont State Colleges

Internal Audit Report

Castleton State College
Payroll
Bank Reconciliation - Perkins
ImageNow
 Financial Aid
 Accounts Payable

March 2013

Summary

Payroll

Scope and Objectives

Vermont State Colleges' employees, both union and non-union, have approved documentation to support their pay rates, hours paid, and/or any additional compensation.

The objectives were to determine that:

- Employee pay rate has current supporting documentation.
- Appropriate approval(s) and documentation for stipend/overload payments.
- Hours paid in accordance with contract terms
- Employee pay rates and number of hours, changes/adjustments from one pay period to another are reviewed, approved, and include supporting documentation.
- Documentation in ImageNow.

Methodology

The audit approach included discussions with the Controller, the Director of Payroll & Employee Services, the HR Specialist, and the Director of Financial Aid at Castleton State as well as with Director of Payroll & Benefits at the Office of the Chancellor.

For staff payroll, a test sample of 25 of 469 (5.3%) employees was selected. The Payroll Detail Register for pay period ending 10/12/12 was compared to Payroll Detail Registers for two separate pay periods ending 10/26/12 and 1/18/13, respectively. For student payroll, a test sample of 25 of 280 (8.9%) employees was selected. The Payroll Detail Register for pay period ending 10/17/12 was compared to Payroll Detail Registers for two separate pay periods ending 10/31/12 and 11/14/12, respectively.

FINAL**Findings, Recommendations, and Management Response****Findings/Testing**

1. Staff Payroll
 - A. On payroll ending 10/12/12, 15 of 25 employee time sheets were reviewed for employee electronic signatures. Of the 15 chosen, there was 1 employee with no electronic time sheet, however, an e-mail was provided with the employee hours for payroll input.
 - B. On payroll ending 10/26/12, there was 1 employee being paid an athletic stipend with no current contract.
2. Student Payroll
 - A. On payroll ending 10/17/12, 15 of 25 employee time sheets were reviewed for employee electronic signatures. Of the 15 chosen, 4 time sheets were not electronically signed by the student.
 - B. Of the 25 students selected, there were 2 students whose contracts were not in ImageNow. The HR Specialist did have a hard copy of each student's contract.

Recommendations:

1. Additional training/reminders to employees by supervisors regarding the electronic approvals of their time sheets.
2. Review procedures to insure all applicable documents are imaged and complete.
3. Review employee stipends and other applicable payments to ensure contracts are in place for the current year.

Management Response:

With regards to electronic signatures for both staff and student payrolls, we are continuing our efforts to remind employees of the importance of signing their time sheets and asking supervisors to help with this process and also to approve in a timely manner. We are running approval reports early on Thursdays to remind supervisors to approve. We have seen a very good response from our efforts.

In response to the employee on staff payroll who did not have a current contract, we have since issued a contract retroactive to July 1 and it is imaged and linked to her record.

With regards to the student contracts that had not yet been imaged, Debbie is checking each student in Image Now to insure that all required documents are imaged.

Nell will review image now records to insure that all hourly employees have current contracts linked.

FINAL**Summary**

Bank Reconciliation - Perkins

Scope and Objectives

Reconciliation of General Ledger accounts to Educational Computer Systems Inc. (ESCI) system records and bank statement provide for reasonable assurance of accuracy of financial records related to Perkins loan information. This identifies transactions that may require further follow up and adjustment, as needed.

The objectives will be to determine that:

- Reconciliations are prepared on a monthly basis
- Reconciliations are reviewed and approved
- Reconciling items are followed up on in a timely manner
- Entries to GL reflecting monthly activity are posted each month

Methodology

The audit approach included a discussion with the Controller regarding the process and a subsequent review of Perkins reconciliations and bank statements for the period July 2012 – January 2013.

Findings, Recommendations, and Management Response**Findings/Testing**

1. Monthly reconciliations from the General Ledger to the Perkins Loan bank statement and from the General Ledger to the ESCI system records have been prepared by the Controller and reviewed by the Dean of Administration.
2. On the Nursing Perkins Loan monthly reconciliation, there is a \$16.18 reconciling item for the General Ledger that's been carried forward for more than a year.
3. From July through December, the monthly reconciliation shows that there has been a variance between the bank and the General Ledger balance each month ranging from \$98.33 - \$217.62.

Recommendations:

1. Continue monthly reconciliations.
2. In the Nursing Perkins Loan General Ledger, make an adjustment to clear this small reconciling item.

3. Research on-going variance to identify and resolve.

Management Response:

The controller will work with Financial Aid to clear the small reconciling items that have been outstanding for an extended period of time.

FINAL**Summary**

ImageNow – Accounts Payable

Scope and Objectives

ImageNow is used to scan, rout for approval(s), voucher, review during the AP process, archive, retrieve, and eventually destroy electronic copies of documents.

The objectives will be to determine:

- Documents scanned are complete and legible
- AP documents have the appropriate approval(s)
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow.

Methodology

The audit approach included a discussion with the Accounts Payable Manager. A General Ledger Trial Balance and query report was previously run for the months of December 2012 through February 2013. A random selection of 35 of 1,750 (approx 2%) invoices was made and viewed in ImageNow.

Findings, Recommendations, and Management Response**Findings/Testing**

1. Invoices are initialed for approval to pay before imaging.
2. Of the 35 invoices viewed in ImageNow, 1 invoice did not contain an approval.

Recommendations:

Consider scanning invoices and utilizing approval routing process within ImageNow.

Management Responses:

Castleton is continuing to work toward the advanced workflows in ImageNow. We have a more decentralized invoicing process than other schools. We receive very few invoices directly prior to approval.

Summary

ImageNow – Financial Aid

Scope and Objectives

The objectives will be to determine that:

- Documents scanned are complete and legible
- Financial Aid documents have the appropriate approval(s)
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow

Methodology

The audit approach included a conversational review and discussion with the Director of Financial Aid. Through this discussion, the procedure documentation was reviewed. A test sample of 30 students was previously prepared.

Findings, Recommendations, and Management Response

Findings/Testing

Two documents per student were viewed in ImageNow with the Director and all appear to be legible and complete. All were easily found and accessible to appropriate staff.

Recommendations:

Continue following ImageNow procedures and review for additional uses for its capabilities.

Management Response:

Financial Aid will continue to engage ImageNow where efficiencies can be gained, enhancing procedures.



Vermont State Colleges

Internal Audit Report

Johnson State College
Payroll
ImageNow
 Payroll
 Registrar

February 2013

Final**Summary**

Payroll

Scope and Objectives

Vermont State Colleges' employees, both union and non-union, have approved documentation to support their pay rates, hours paid, and/or any additional compensation.

The objectives were to determine that:

- Employee pay rate has current supporting documentation.
- Appropriate approval(s) and documentation for stipend/overload payments.
- Hours paid in accordance with contract terms
- Employee pay rates and number of hours, changes/adjustments from one pay period to another are reviewed, approved, and include supporting documentation.
- Documentation in ImageNow.

Methodology

The audit approach included discussions with the Dean of Administration, the Controller, the Associate Director of Financial Aid, and the Director of Payroll & Benefits at Johnson State as well as with Director of Payroll & Benefits at the Office of the Chancellor.

For staff payroll, a test sample of 50 of 332 (15%) employees was selected. The Payroll Detail Register for pay period ending 10/12/12 was compared to Payroll Detail Registers for two separate pay periods ending 10/26/12 and 1/18/13, respectively. For student payroll, a test sample of 52 of 236 (22%) employees was selected. The Payroll Detail Register for pay period ending 10/17/12 was compared to Payroll Detail Registers for two separate pay periods ending 10/31/12 and 11/14/12, respectively.

Final**Findings, Recommendations, and Management Response****Findings/Testing**

1. Staff Payroll
 - A. There was one (1) overload payment with no contract available in ImageNow or on the portal.
 - B. There were two (2) stipend payments with no contract available in ImageNow or on the portal.
 - C. There was one (1) instance of an employee with overtime and a shift differential where the overtime rate basis was inconsistent with three other employees with similar basis calculation in the test group.
2. Student Payroll

There was one (1) instance of an \$8,500 contract not signed by Divisional Dean as noted on the contract form for contracts greater than \$2,500.

Recommendations:

- Include copy of all applicable employee pay related contracts whether individually or by master listing in ImageNow.
- Ensure all employee pay related contracts greater than \$2,500 signed by appropriate Divisional Dean.

Management Responses:

The college has recently finalized its adoption of ImageNow for Payroll processing. New processes implemented during the audit time period include the weekly scanning and reconciliation of all overload, stipend and employment forms as well as electronic approval of student employment and part-time faculty workload assignments. These changes will ensure that all documentation is available in ImageNow as well as guarantee the appropriate approval levels.

Of the two stipends noted as missing one truly is not available in the ImageNow system, process changes have been implemented to prevent this from occurring in the future. The other stipend payment is for a weekend shift differential for an employee who has a Tuesday – Saturday work schedule. The employee receives a \$0.75/hour shift differential (per the Staff Federation’s handbook) for working during the weekend. Unfortunately the Colleague payroll system is unable to process a weekend shift differential for an employee who only works one of the two days of a weekend. Therefore the college is required to process a stipend for each Saturday worked to reflect the \$0.75/hour each week.

Final

The remaining error noted was for an employee who works a variable schedule and is eligible for both a shift differential and overtime on certain shifts. Specific coding is required in the Colleague system in order to make sure that the employee's overtime and shift differential are calculated correctly each payroll. The college has received additional training on this process and has implemented new procedures to verify and correct the calculations for this type of employee each pay period.

Final**Summary**

ImageNow – Payroll

Scope and Objectives

ImageNow is used to scan, archive, retrieve, and eventually destroy electronic copies of documents.

The objectives will be to determine:

- Documents scanned are complete and legible
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow.

Methodology

The audit approach included a discussion with the Dean of Administration and the Director of Payroll & Benefits regarding JSC's procedures in their use of ImageNow. In conjunction with the Payroll internal audit (see prior section), the same sample group consisting of 50 of 332 (15%) staff employees and 52 of 236 (22%) student employees was used to research documents in ImageNow.

Findings, Recommendations, and Management Response**Findings/Testing**

1. Of the documents reviewed, all were legible and appear to be complete.
2. Documents are scanned by document types and linked to respective employees.
3. Paper documents are retained approximately one month after scanning then shredded.

Recommendations:

- Include copy of all applicable employee pay related contracts whether individually or by master listing in ImageNow.

Final**Management Responses:**

The college has recently finalized its adoption of ImageNow for Payroll processing. New processes implemented during the audit time period include the weekly scanning and reconciliation of all overload, stipend and employment forms as well as electronic approval of student employment and part-time faculty workload assignments. These changes will ensure that all documentation is available in ImageNow.

Final**Summary**

ImageNow – Registrar

Scope and Objectives

The objectives will be to determine that:

- Documents scanned are complete and legible
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow

Methodology

The audit approach included a conversational review and discussion with the Registrar. Through this discussion, the procedure documentation was provided. A test sample of 35 of 1,783 (2%) students was selected.

Findings, Recommendations, and Management Response**Findings/Testing**

1. For each of the students in the sample group, two (2) to four (4) various documents were viewed. All documents viewed were legible and easily found.
2. Since the Summer 2009, documents are scanned by document type and linked to the applicable student.
3. Prior to Summer 2009, documents were all scanned to an “archived” document type and not by individual document types. When searching by student, any archived document for that student is brought up as well.
4. A rolling 30-day filing system is used for original hard copies of scanned documents and which are then shredded.
5. Stored ImageNow documents have not been electronically purged at this time. A process is currently being developed by OCIT.

Final

Recommendations:

- Continue to utilize ImageNow and expand on its use to enhance records storage, accessibility, retention and subsequent destruction.

Management Response:

JSC will continue to utilize ImageNow and expand on its use to enhance records storage, accessibility, retention and subsequent destruction.



Vermont State Colleges

Internal Audit Report

Lyndon State College
Perkins Reconciliations
ImageNow
 Accounts Receivable
 Accounts Payable

March 2013

FINAL**Summary**

Perkins Reconciliations

Scope and Objectives

Reconciliation of General Ledger accounts to Educational Computer Systems Inc. (ESCI) system records and bank statement provide for reasonable assurance of accuracy of financial records related to Perkins loan information. This identifies transactions that may require further follow up and adjustment, as needed.

The objectives will be to determine that:

- Reconciliations are prepared on a monthly basis
- Reconciliations are reviewed and approved
- Reconciling items are followed up on in a timely manner
- Entries to GL reflecting monthly activity are posted each month

Methodology

The audit approach included a discussion with the Controller. Also, a review was made for the period July-December 2012.

Findings, Recommendations, and Management Response**Findings/Testing**

1. Reconciliations of ESCI cash bank statements to the General Ledger cash account for the period July through December 2012 were completed and approved by the Dean of Administration.
2. A cumulative YTD summary Excel schedule is maintained on a monthly basis by the Controller of the Perkins loan activity. Activity for the period July – September was posted to the General Ledger in September. Activity for October – December was posted monthly.
3. There's been a \$1,359.54 ESCI reconciling item each month from July – December on the bank statement to General Ledger reconciliations.

Recommendations:

1. Monthly activity should be posted each month.
2. Follow up with ESCI to make applicable adjustment.

FINAL**Management Responses:**

Although we do reconcile and track the Perkins activity on a monthly basis, we only upload it to Colleague quarterly. Management concurs with this recommendation to post the activity not only in the excel spreadsheet monthly, but also to Colleague.

Management has and will continue to follow up with ECSI regarding the reconciling item for a student that consolidated his Perkins loan and then changed his mind, leaving \$1,300 that needs to be added back to the fund.

FINAL**Summary**

ImageNow – Accounts Payable

Scope and Objectives

ImageNow is used to scan, rout for approval(s), voucher, review during the AP process, archive, retrieve, and eventually destroy electronic copies of documents.

The objectives will be to determine:

- Documents scanned are complete and legible
- AP documents have the appropriate approval(s)
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow.

Methodology

The audit approach included a discussion with the Controller. A Voucher Summary report was previously run for the months of January and February 2013. A random selection of 40 of 962 (approx. 4%) vouchers was made and viewed in ImageNow.

Findings, Recommendations, and Management Response**Findings/Testing**

1. All vouchers selected from the test months were easily found.
 - A. Two vouchers, V0640055 (\$4,725) and V0643119 (\$4,216), appear to not have been approved.
 - B. Two vouchers, V0640694 (\$29,775) and V0647582 (\$29,775) approved by the Physical Plant Director but not the Dean of Administration.
 - C. On V0649598 (\$4,750), there was no approval stamp, only typed in name on check request form. Also, check request form did not include any supporting documentation.

Note: LSC was the first to begin using ImageNow. It was observed that approval stamps by budget managers looked like text boxes and can be duplicated. OC-IT has since corrected this going forward for all LSC budget managers.

Recommendations:

1. Review procedures to insure invoices have appropriate approvals.
2. Invoices over established thresholds are approved by the Dean of Administration.
3. Vouchers have appropriate supporting documentation.

Management Responses:

Management agrees with these recommendations. LSC had a change in personnel in the Accounts Payable role within the past few months. LSC Controller reviewed these findings with the individual to be certain there is an understanding of these procedures and their importance.

Summary

ImageNow – Accounts Receivable

Scope and Objectives

ImageNow (IN) is used to scan, rout for approval(s), archive, retrieve, and eventually destroy electronic copies of documents.

The objectives will be to determine:

- Documents scanned are complete and legible
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow.

Methodology

The audit approach included a discussion with the Staff Accountant regarding ImageNow procedures for AR refunds, miscellaneous adjustments, withdrawals, and archiving of records. A test sample of 25 of 1500 (approx. 2%) students was selected and 1 to 2 documents were viewed for each student.

Findings, Recommendations, and Management Response

Findings/Testing

1. All documents viewed appeared to be complete and legible.
2. Adjustments made to student account had supporting documentation in ImageNow.

Recommendations:

Continue workflow in accordance with established ImageNow procedures.

Management Responses:

Management is cognizant of the ImageNow workflow procedures and follows these consistently.



Vermont State Colleges

Internal Audit Report

Vermont Technical College
Grant Proposals & Reporting
Bank Reconciliation - Perkins
ImageNow
Financial Aid
Registrar

February 2013

Summary

Grant Proposals & Reporting

Scope and Objectives

The Vermont State Colleges' External Funding: Proposals for Grants (Policy 408) defines the process for reviewing and acting upon requests, proposals, applications, and renewals for grant funding from public and private sources. This policy identifies the steps through which funding proposals must be processed up to and including approval by the Board of Trustees.

The objectives of the grant proposals and reporting audits will be to determine if:

- Applicable grant forms, as identified in Policy 408, are prepared and submitted to the Office of the Chancellor by the schools.
- Subsequent award or denial notifications are submitted to the Office of the Chancellor in a timely manner.

Methodology

The audit approach included a discussion with the Staff Accountant and Associate Dean of Administration regarding VTC grants. A listing of VTC's FY2013 current, pending, and denied grants (total of 45) was previously prepared and reviewed for required submission of applicable grant forms to the Office of the Chancellor. Additionally, a test sample, 10 of 45 (22%), was chosen for review for external reporting requirements.

Findings, Recommendations, and Management Response

Findings/Testing

1. Of the 10 grants in the test sample, three were for more than one year. Form A&B and Form C were not completed and submitted to the Office of the Chancellor for the subsequent periods. These grants, however, were included on the current year grant listing.
2. Through discussions with the Staff Accountant and Associate Dean of Administration, it was noted that a \$100K IBM Centennial Grant was

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received. No Grant Proposal Budget Analysis (Form A&B) or New Funding Source Document – Grant (Form C) was prepared and submitted to the Office of the Chancellor. Subsequently, this grant was not included on the Grant Listing.

3. From the sample of 10, programmatic and/or financial reporting has been done for 7 of 10 grants reviewed. For the remaining 3 in the test sample, external reporting is not yet due.

Recommendations:

1. Communicate to applicable staff the requirements of External Funding: Proposals for Grants (Policy 408) regarding preparation and submission of required reporting documentation.
2. Establish internal procedure or other mechanism to insure timely completion and submission of required reporting documentation to the Office of the Chancellor.

Management Responses:

1. The college was unaware that the interpretation of Policy 408, established in 2008, had changed. The college will change current practices to comply with the revised interpretation.
2. The IBM Grant was awarded to Vermont State Colleges. Vermont Technical College was asked to administer the grant. Neither entity prepared the internal documents. VTC has now prepared and submitted the VSC forms.

Final**Summary**

Bank Reconciliation - Perkins

Scope and Objectives

Reconciliation of General Ledger accounts to Educational Computer Systems Inc. (ESCI) system records and bank statement provide for reasonable assurance of accuracy of financial records related to Perkins loan information. This identifies transactions that may require further follow up and adjustment, as needed.

The objectives will be to determine that:

- Reconciliations are prepared on a monthly basis
- Reconciliations are reviewed and approved
- Reconciling items are followed up on in a timely manner
- Entries to GL reflecting monthly activity are posted each month

Methodology

The audit approach included a discussion with the Staff Accountant II regarding the process and a subsequent review of Perkins reconciliations and bank statements for the period July 2012 – January 2013.

Findings, Recommendations, and Management Response**Findings/Testing**

1. Monthly reconciliations from the General Ledger to the Perkins Loan bank statement have been prepared by the Staff Accountant II and reviewed by the Controller. It was noted, July-September reconciliations, were done in November.
2. Quarterly reconciliations from the General Ledger to the ESCI system records were prepared by the Staff Accountant II and reviewed by the Controller.
3. There was one small unreconciled variance (\$2.50) in July reconciliation which was cleared in October.

Recommendations:

Continue monthly and quarterly reconciliations.

Management Response:

VTC Business Office will continue monthly reconciliations of the Perkins Loan account.

Final**Summary**

ImageNow – Registrar

Scope and Objectives

The objectives will be to determine that:

- Documents scanned are complete and legible
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow

Methodology

The audit approach included a discussion and review with the Records Specialist. Through this discussion, the procedure documentation was re-verified. A sample of 30 of 1645 students (approx. 2%) was selected and 1 to 3 documents for each student were reviewed.

Findings, Recommendations, and Management Response**Findings/Testing**

ImageNow Procedures

1. Overall procedure appears to be consistent with VSC Registrar Offices.
2. Hard copies of documents are currently being retained. A new Registrar is on board and a decision has not been made at this time regarding the shredding of paper copies.
3. Thirty current student records were chosen and 1 to 3 documents each were viewed. All documents viewed appeared to legible and complete.

Recommendations:

Recommend hard copies of documents be shredded consistent with other VSC schools.

Management Response:

The VTC Registrar's Office has resumed practice of shredding hard copies consistent with other VSC schools.

Final**Summary**

ImageNow – Financial Aid

Scope and Objectives

The objectives will be to determine that:

- Documents scanned are complete and legible
- FinAid documents have the appropriate approval(s)
- Documents can be located and retrieved when needed.
- Length of time original paper copies are kept
- Process for scanning and storing electronic documents, and for destroying paper documents is consistent across all colleges
- Determine if changes need to be made to our Document Retention Policy based on the implementation of ImageNow

Methodology

The audit approach included a discussion and review with the Director of Financial Aid. Through this discussion, the procedure documentation was re-verified. A sample of 30 of 1645 students (approx. 2%) was selected and 2 documents for each student were reviewed.

Findings, Recommendations, and Management Response**Findings/Testing**

ImageNow Procedures

1. Overall procedure appears to be consistent with VSC Financial Aid Offices.
2. Hard copies of documents are kept until after the external audit then shredded.
3. Thirty current student records were chosen and 2 documents each were viewed. All documents viewed appeared to legible and complete.

Recommendations:

Continue current procedures consistent with other VSC schools.

Management Response:

The VTC Financial Aid Office will continue current practices consistent with other VSC schools.