

## 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:** February 6, 2013

**SUBJ:** Audit Committee Meeting scheduled for February 13, 2013

Tom

The Audit Committee of the VSC Board of Trustees will meet from 2:00-3:00 in Room 101 at the Chancellor's Office in Montpelier. The VSC Finance & Facilities Committee will follow this meeting.

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

Thank you.

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

**Board of Trustees  
Audit Committee Meeting**

**February 13, 2013**

**AGENDA**

- A. ITEMS FOR DISCUSSION AND ACTION
  - 1. Minutes of the October 17, 2012 Meeting of the Audit Committee
  
- B. ITEMS FOR INFORMATION AND DISCUSSION
  - 1. Discuss FY2012 Audit Advisory Comments
  - 2. Discuss FY2013 Internal Audit Plan
  - 3. Discuss Continued Efforts at Fraud Prevention

A. ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the October 17, 2012 Meeting of the Audit Committee

The Audit Committee met on October 17, 2012 at the Chancellor's Office in Montpelier.

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

From the Chancellor's Office: Rick Bourassa, Tim Donovan, Dick Ethier, Annie Howell, Bill Reedy, Tom Robbins, Deb Robinson, Dan Smith

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

From the colleges: Scott Dikeman, Wayne Hamilton, Geoff Lindemer, Sharron Scott

From the public: Dave Dilulis – O'Connor & Drew, Keith Goldie – O'Connor & Drew, Chris Stenmon – O'Connor & Drew, Steve Vantine – State of Vermont Auditor's Department

Chair Milne called the meeting to order at 1:00 p.m.

ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the May 23, 2012 Meeting of the Audit Committee

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

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

The meeting began with introductions. Chris Stenmon from O'Connor & Drew gave a brief overview of the FY2012 VSC audit. Mr. Stenmon started his presentation by saying that the VSC was issued a clean opinion

for the FY2012 audit. The audit went smoothly with full cooperation from VSC staff.

The FY2012 financial statements present fairly, in all material respects, the financial position of the VSC as of June 30, 2012 and 2011. The financial statements were reviewed with some year-on-year differences being briefly noted. These were essentially the same differences highlighted in the MD&A section.

The overview included the footnotes. Some items of note are:

Statement of Net Assets: The maturation of our CD is reflected in a \$40M decrease in investments and similar increase in cash. A reduction of \$15M in deposits with bond trustees reflects use of bond funds for construction projects, and results in an increase in the value of capital assets. The interest rate swap deferred inflow is the estimate of what it would have cost to refinance the three loans with interest rate swap agreements on June 30. The cost is related to interest rates now compared to when the loans were taken out. There is an offsetting entry under liabilities. Unrestricted net assets have a negative balance due to the GASB45 accrual that is charged there. To date \$36M has been accrued to this liability. There was discussion on the impact that these post employment benefits are having on our net assets.

Detail of the changes in net assets is in the Statements of Revenues and Expenses. Operating revenues increased year over year; however, this increase was offset by increased operating expenses. Non-operating revenues decreased from prior year, primarily in investment income and state appropriations. The VSC requires reserves to be fully funded. This includes both the Board of Trustees-required reserves as well as the balance sheet reserves.

Footnotes: The auditors highlighted upcoming changes in GASB rules and possible impacts on VSC financial reports, details of investment holdings, long-term liabilities, classification of expenses by functional categories, detail of capital asset activity by type, future obligations due to operating leases, and various other contingencies and commitments.

Supplemental information includes the actuarial accrued liability related to post employment retirement benefits, and our level of funding for those benefits, which is currently zero.

GASB requires a report on internal control of financial reporting. The auditors found no deficiencies or material weaknesses in this area.

The last report was the A-133 Audit, which reports on 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 and upcoming GASB pronouncements.

Chair Milne expressed concern that VTC reported a loss at year-end that was not previously highlighted. CFO Robbins discussed that going forward there will be more rigorous narratives and discussions every quarter as well more highlighting of the larger revenue and cost drivers.

The FY2012 Audit Report was accepted by the committee.

The resolution passed and will be forwarded to the Board for its consideration.

## B. ITEMS FOR INFORMATION AND DISCUSSION

### 1. VTC Payroll Issues

The VTC payroll memo included with the agenda was discussed. There was concern that there might be a breakdown in procedures at the other colleges. CFO Robbins said that there has been a lot of intensive work in this area with new reports being generated to help catch errors as well as a review of processes and procedures at each campus. This year the VSC will focus internal audit on payroll areas.

### 2. Conduct an Audit Committee Executive Session: Guidelines and Question of the executive session with the external auditors

There was no discussion on this agenda item.

3. Fraud and the Responsibilities of the Government Audit Committee

There was no discussion on this agenda item.

The Audit Committee entered executive session with the external auditors at 2:15 p.m.

The Audit Committee concluded the executive session with the external auditors at 2:50 p.m.

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

**B. ITEMS FOR INFORMATION AND DISCUSSION****1. Discuss FY2012 Audit Advisory Comments**

Below is an update on the FY2012 Advisory Comments.

**CURRENT YEAR 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 ensure proper controls are in place to ensure 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.

**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 colleges' 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.

We will conduct a review of the VSC business policies over the next year or so to see where they can be improved.

**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 FY2013 audit.

**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 ensure that appropriate management action is being followed in accordance with policies and procedures of the Colleges.

Management's response: (CO)

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 whistleblower 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)**

We will periodically get lists from the VSC banks indicating who the current account signers are. We will then review these lists to ensure the signers are active employees that are still authorized.

**Clery Act Compliance**

Current 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 affect the overall risk assessment of audits.

Auditor’s recommendation:

The Colleges 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 1<sup>st</sup> 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 Deans of Students, they will lead this process.

**Status January 2013: (OC)**

We are currently reviewing the auditor’s findings versus our websites to determine the appropriate actions required.

**PRIOR YEAR COMMENTS THAT REMAIN OUTSTANDING****"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 two pay periods. Castleton State accrued for three. We also noted that Johnson State double accrued half 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.

2. Discuss FY2013 Internal Audit Plan

Below is the FY2013 internal audit plan. In years past we have chosen five areas to review annually with the internal audit function. Due to the complexity of ImageNow we are choosing four areas for FY2013. For the FY2012 internal audit we documented the ImageNow procedures at the colleges. For the ImageNow internal audit we are going to test the FY2013 practices against those FY2012 procedures that we documented.

We will begin the fieldwork for these items and locations starting in February.

Vermont State Colleges

Internal Audit Plan

FY 2013

**Table of Contents**

Audit Areas by College .....3

Financial Audits

    Payroll .....4

    Grant Proposals & Reporting .....5

    Perkins Reconciliations .....6

Procedures Audit

    ImageNow .....7

Internal Audit, FY2013  
By College

	CCV	CSC	JSC	LSC	VTC
Payroll		X	X		**
Grant Reporting	X				X
Bank Reconciliations		X		X	X
ImageNow					
Payroll	X		X		
FinAid		X			X
AR	X			X	
Registrar			X		X
AP		X		X	

\*\*We are continually working with VTC as well as reviewing their payroll.

Internal Audit, FY2012  
By College

	CCV	CSC	JSC	LSC	VTC
Construction Invoice		X	X		
Grant Reporting	X				X
Title IV/Perkins			X	X	
ImageNow					
Payroll	X		X		
FinAid		X			X
AR	X			X	
Registrar			X		X
AP		X		X	

## **Financial Audits**

### **Payroll**

**DEPARTMENT:** Payroll/HR  
Business Office (Oversight)

#### **DESCRIPTION OF SCHEDULED AUDIT:**

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 will be to determine:

- 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

Risks associated with inaccurate pay rates, hours paid, and adjustments may include:

- External audit findings
- Inaccurate or incomplete documentation
- Inadequate monitoring and reconciliation
- Over/under payments to employees
- Budget variances

## **Grant Proposals & Reporting**

**DEPARTMENT:** Business Office at each college

### **DESCRIPTION OF SCHEDULED AUDIT:**

The Vermont State Colleges' Policy 408: External Funding: Proposals for Grants 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.

Risks associated with inadequate grant proposals and reporting may include:

- Board of Trustees' responsibility per policy not being accomplished
- Incomplete records
- External audit findings



## **Perkins Reconciliations**

**DEPARTMENT:** Business Office at each college

### **DESCRIPTION OF SCHEDULED AUDIT:**

Reconciliation of General Ledger accounts to ESCI 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

Risks associated Perkins reconciliations may include:

- External audit finding
- Incorrect FISAP reporting

## **Procedures Audit**

### **ImageNow**

**DEPARTMENT: Various Offices System-wide  
Business Office (Oversight)**

#### **DESCRIPTION OF SCHEDULED AUDIT:**

ImageNow is a software package that allows us to create and view electronic copies of documents, and is used for payroll, financial aid, registrars, AR, AP and others. ImageNow reduces the amount of paper that must be retained, facilitates processing, archiving for future retrieval, and eventual destruction, as applicable. It does, however, require procedures to ensure that the electronic documentation is readable and available.

The objectives will be to determine:

- Documents scanned are complete and legible
- Documents have the appropriate approval(s), as applicable
- 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

Risks associated with ImageNow process consistency may include:

- Varying practices not interchangeable between schools
- Inability to retrieve documents
- Audit findings
- Non-compliance with Document Retention Policy

3. Discuss Continued Efforts at Fraud Prevention

The VSC continues to cross train staff so each position will have a backup. This cross training involves the backup's periodically performing all of the job tasks. Any anomalies during this time should be reported directly to the supervisor. We also continue to focus on timely reconciliations and separation of duties.