February 5, 2014

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

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

RE: Audit Committee Meeting on February 12, 2014

The Audit Committee will meet on Wednesday, October 23, from 2:00 – 3:00 p.m. in Room 101 at the Chancellor's Office, 575 Stone Cutters Way in Montpelier. Immediately following this meeting the VSC Finance & Facilities Committee will meet from 3:00 p.m. – 5:00 p.m.

Please note the late start time of 2:00 pm.

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

Thank you.

cc: VSC Trustees
  Council of Presidents
  Business Affairs Council
  Bradley Kukenberger, Department of Finance & Management
  Doug Hoffer, State Auditor

Board of Trustees
Audit Committee Meeting

February 12, 2014

AGENDA

A. ITEMS FOR DISCUSSION AND ACTION

    1. Minutes of the October 23, 2013 Meeting of the Audit Committee

B. ITEMS FOR INFORMATION AND DISCUSSION

    1. Discuss FY2013 Audit Advisory Comments
    2. Discuss FY2014 Internal Audit Plan

A.   ITEMS FOR DISCUSSION AND ACTION

1.   <u>Minutes of the October 23, 2013 Meeting of the Audit Committee</u>

Trustee Milne reported the Committee discussed the two items voted on by the Board. The auditors mentioned in the meeting that audits of other state colleges revealed several financial issues, and the Committee continued conversations about fraud and abuse. Trustee Milne referenced *Chronicle of Higher Education* articles on fraud disclosures by private colleges and stated the VSC must always be aware of fraud and potential risks. Trustee Lippert added that such precautions are necessary and not a reflection on the VSC.

B.   ITEMS FOR INFORMATION AND DISCUSSION

1.   Discuss FY2013 Audit Advisory Comments

There were three advisory comments for FY2013. Two have been resolved and the third involves the year end payroll accrual which will be resolved at year end. Below is an update on the FY2013 Advisory Comments.

CURRENT YEAR COMMENTS
Bank Account Control and Disbursement Support

Current situation:
During our A-133 compliance audit procedures of the "Vermont Genetics Network" grant at Johnson State College (JSC), we noted a bank account listed under the name and social security number of a JSC faculty member, which contained federal grant funds issued to the College. Per our inquiry of management at the College, it was determined that this account was established separately from the College by the grant administrator in order to protect the sensitive and personal nature of the information of those who participated in the grant study. Individuals who participated in the study were paid in cash with funds from the federal grant which were held in the bank account that was established and controlled by the grant administrator.

In addition, we noted that support for disbursements related to this grant could not be provided. Therefore, disbursements were not in compliance with both the established College internal control procedures and A-133 compliance requirements.

Auditor's recommendation:
We recommend that the College close this account and process all disbursements through the internal control system of the College so as to maintain accurate records and support for all grant disbursements. Going forward, all unexpended money should be maintained in bank accounts controlled by the Vermont State Colleges and the Colleges should ensure that no additional private bank accounts exist that contain College funds.

Management's response:
The bank account opened by the grant administrator was closed immediately after this issue was identified. The college worked with the grant administrator to review and document the value of the payments made to research participants and has confirmed that payments were made as expected according to the terms of the grant. In addition, new procedures have been established to maintain the confidentiality of research participants while simultaneously allowing the college to follow its internal control procedures.

Management update January 2014:
We have no further information to report; this issue remains resolved.

Institutional Student Information Record (ISIR) Verification

Current situation:
While performing testing at Johnson State College (JSC) for the A-133 compliance audit, we noted one student whose ISIR was selected for verification by the Department of Education (DOE). The College was required by the DOE to verify the Adjusted Gross Income (AGI) balances indicated on the student's ISIR. While performing the verification procedures, the College only traced to partial support, as they did not verify the financial information for the spouse of the student which was included in the AGI on the ISIR. As such, the College failed to fully complete the verification procedures.

Auditor's recommendation:
We recommend that when verifying the household's AGI listed on a student's ISIR, the College should trace to support for both the student and their spouse.

Management's response:
Upon notification of this issue, Johnson State College recalculated the student's ISIR to include the additional partial support in the household's AGI and recalculated the student's financial aid package. This resulted in a zero dollar change to the student's financial aid package.
At the time of this error the college was training a new employee in financial aid who was unfamiliar with the requirements for verification of partial support. Training of this resource has been addressed and is not expected to recur

Management update January 2014:
We have no further information to report; this issue remains resolved.

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 Colleges. We noted that as of June 30, 2013 all schools except Lyndon State accrued 2 pay periods for the faculty accrual, but that Lyndon State accrued 2.5 pay periods. We noted that Lyndon

State double accrued .5 of the faculty payroll because they included those faculty employees in the regular year-end accrued payroll balance as well as in the faculty accrued payroll balance.

Auditor's recommendation:
We recommend that management institute controls to ensure that all schools are performing the same procedures for all accounts between all of the Colleges.

Management's response:
The Colleges' financial staff will review procedures for calculating the payroll accrual prior to closing to ensure consistency across the system.

Management update January 2014:
The plan to review procedures prior to closing has not changed.

2.   <u>Discuss FY2014 Internal Audit Plan</u>

Below is the FY2014 internal audit plan. In years past we have chosen four or five areas to review annually with the internal audit function. For FY2014 we are going to review adherence to the VSC PCard Policy and distribute a Self-Assessment of Internal Control Questionnaire. The control questionnaire is new this year and this tool will help us determine where we have weaknesses in our internal control processes. It is important to note that the internal control questionnaire and the correction of any findings is a continual process. In subsequent years we can modify and the tailor the questions to different areas. The State of Vermont has successfully implemented this tool into its annual control review and the VSC will do so as well.

This year we are also going to send a college controller along with the VSC internal auditor to conduct the on-site college visits. We will use a different controller for each visit. During the visit there will be work done on PCards as well as follow up from the internal control questionnaire.

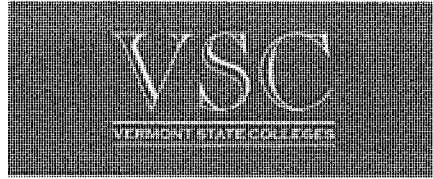The following are scheduled dates for on-site visits at the schools and the OC.

Wednesday	Feb 26th	at CCV
Thursday	Mar 6th	at LSC
Monday	Mar 10th	at JSC
Thursday	Mar 13th	at CSC
Wednesday	Mar 19th	at OC
Friday	Mar 21st	at VTC

Vermont State Colleges
Internal Audit Plan

FY2014

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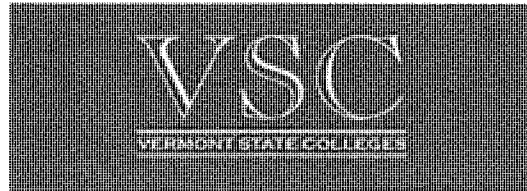
Vermont State Colleges

FY 2014 Self-Assessment of Internal Control Questionnaire

The Self-Assessment of Internal Control Questionnaire is a review of the internal policies and procedures in each Vermont State College. The questionnaire is designed to help identify risk as well as eliminate considerations of risk that do not apply to your college. The questionnaire serves as management tool for evaluating how well risks are being addressed through your current control policies and practices. It is designed to raise awareness of certain issues and encourage further analysis and discussion. The questionnaire will also help the Vermont State Colleges identify best practices to share with all of the colleges.

Internal controls are extremely important, ensuring that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Colleges should use this questionnaire as a guide to managing important controls within their units/departments. *Please note, while this questionnaire covers several areas, it does not include all possible areas of risk within a department.*

This questionnaire is divided into different control processes; some may not be applicable to all colleges. The questions may be answered by different departments within the college and the answers aggregated. A "no" response indicates a potential weakness in the specific internal control referred to in that question. Action should be taken to resolve any weaknesses.
The terms "department" and "college" may be interchangeable depending upon the context of the question.
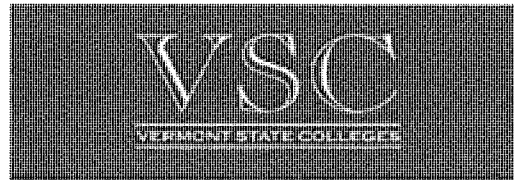
VSC
VERMONT STATE COLLEGES

			Vermont State Colleges	
			FY 2014 Self-Assessment of Internal Control Questionnaire	

College / Dept. : _____

If completing in Excel, use the drop-down box in the appropriate column to select/change your response.

YES	NO	NA		Section 1: General Controls
			1	Are there written rules, guidelines, policies, and/or procedures for all transactions and critical activities in this department?
			2	Does the College / Department have copies of all current VSC and college policies and procedures manuals?
			3	Do personnel have the knowledge and skills required for their jobs?
			4	Are month end financial reports in Colleague reviewed and verified for accuracy on a monthly basis?
			5	Are period end financial reports reconciled to departmental supporting documents on a monthly basis or quarterly basis?
			6	Is a member of management reviewing and approving reconciliations in a timely manner?
			7	Does your College / Department maintain a key and/or door access control log? This log should list all keys or access codes owned/issued by the department, to whom they are issued, locks each key will open, and key numbers.
			8	Does your College / Department have an operating plan that states goals to be accomplished and a timeline for completion of tasks?
			9	Are College / Department goals and tasks prioritized according to importance?
			10	Has management established operating or work standards that can be used to measure (benchmark) College / Department performance?Are there disaster recovery procedures for critical areas in place?
			11	Are there disaster recovery procedures for critical areas in place?

Vermont State Colleges
FY 2014 Self-Assessment of Internal Control Questionnaire

College/Dept: _____

If completing in Excel, use the drop-down box in the appropriate column to select/change your response.

| YES	NO	NA		Section 2: Cash and Collections
			1	Does the College / Department have any written procedures for cash handling and related controls?
			2	Is a receipt immediately prepared upon collection of funds?
			3	Are checks restrictively endorsed with "For Deposit Only for XXXXX College" immediately upon receipt?
			4	Are all checks made payable to XXX College or XXX foundation?
			5	Do two different individuals verify all deposits prior to making the deposit?
			6	Does someone prepare the deposit other than the person collecting and recording receipts?
			7	Are collections held in a secure manner until deposited (i.e. in a locked location)?
			8	Are safe combinations restricted to a minimum number of employees?
			9	Are safe combinations changed after termination of an employee who previously had access?
			10	Are collections deposited intact (i.e. no expenditures made from collections)?
			11	Are deposits made in a timely manner (i.e. generally the same or next business day)?
			12	Is there segregation of duties among opening mail, processing cash, and account reconciliation?

Vermont State Colleges
FY 2014 Self-Assessment of Internal Control Questionnaire

College/Dept: _____

If completing in Excel, use the drop-down box in the appropriate column to select/change your response.

YES	NO	NA		Section 2: Cash and Collections
				Cash Register/Touchnet Operations
			13	Are there written procedures for the operation of the cash registers/TouchNet?
			14	Does the cashier count the change fund before putting it in the drawer?
			15	Are register readings taken when a cashier's shift ends, when a relief cashier takes over, or other various times throughout the day?
			16	Does someone other than the cashier approve voids?
			17	Does an independent person reconcile cash register closing reports to actual receipts collected?
			18	Is the check suspension list, issued by the Business Office, referred to upon accepting checks?
			19	Is one cashier working from the drawer at any given time, or is there a way to distinguish between cashiers (i.e. ID's)?
			20	Is a record of over/shortages by the cashier maintained?
			21	Is there a ceiling on overages/shortages before corrective action is taken?
			22	Are the individuals who handle money trained in procedures to be followed in the event of a robbery or fire?
				Petty Cash (If applicable)
			23	Are petty cash funds locked in a secure area?
			24	Is access to petty cash funds limited to the appropriate personnel?
			25	Does someone other than the fund custodian periodically count the fund?
			26	Are petty cash funds used only for appropriate purposes that are supported by receipts?
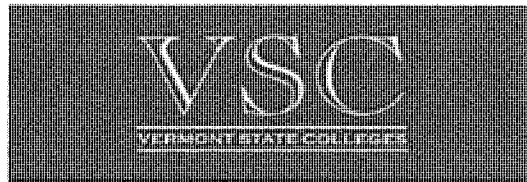
VSC
VERMONT STATE COLLEGES

Vermont State Colleges				
FY 2014 Self-Assessment of Internal Control Questionnaire				
College/Dept: _____				
If completing in Excel, use the drop-down box in the appropriate column to select/change your response.				
YES	**NO**	**NA**		**Section 3: Equipment and Inventoried Assets**
			1	Is capitalized equipment (over $5,000 per item) verified at least every two years and are changes in equipment noted and given to Inventory Control to update?
			2	Is Inventory Control notified of capitalized equipment that is scrapped, stolen, sold, traded in, loaned out, or transferred?
			3	Does the College / Department keep a separate internal record of equipment valued under the capitalization amount of $5,000?
			4	Is the departmental record continuously updated to reflect new purchases and dispositions?
			5	Is equipment kept in secured areas?

VSC

VERMONT STATE COLLEGES

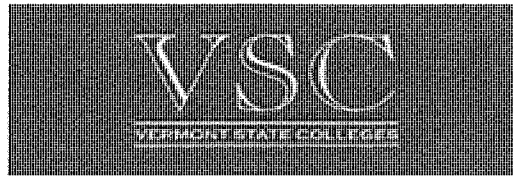|				
**Vermont State Colleges** **FY 2014 Self-Assessment of Internal Control Questionnaire**

College/Dept: _____

If completing in Excel, use the drop-down box in the appropriate column to select/change your response.

YES	NO	NA		Section 4 : Conflict of Interest
			1	Are all staff members aware of the Conflict of Interest policy as stated in VSC Policy and how it impacts business and other contractual transactions?

Vermont State Colleges
FY 2014 Self-Assessment of Internal Control Questionnaire

College / Dept. : _____

If completing in Excel, use the drop-down box in the appropriate column to select/change your response.

YES	NO	NA		Section 5: Computer Use and IT Controls
			1	Is the department's computer equipment secured to prevent theft?
			2	Is access to the computer system limited to authorized individuals?
			3	Are passwords used?
			4	Are there up-to-date written procedures that provide guidance on computer security, data integrity, and controls over information?
			5	Are computer data backup and recovery procedures in place and being used?
			6	Are all copies of software used by the College / Department appropriately licensed?
			7	Are backed up files stored in a secure location?
			8	Are virus protection programs used?
			9	In case of an emergency, does a contingency plan exist that would guide the College / Department on how to continue operations?
			10	Are user ID's promptly deleted upon termination of an employee?

Vermont State Colleges
FY 2014 Self-Assessment of Internal Control Questionnaire

College / Dept. : _____

If completing in Excel, use the drop-down box in the appropriate column to select/change your response.

YES	NO	NA		Section 6: Purchasing Cards
			1	Is there documentation needed for an employee to get a p-card?
			2	Is there a document signed by the employee acknowledging receipt of the p-card and the responsibilities in it use?
			3	Is there training for the new cardholder on the use of the p-card?
			4	Is there refresher training on annual basis for current cardholders?
			5	Is there criteria to determine a card holder's credit limit?
			6	Is there documentation required to request a temporary increase in credit limit?
			7	Is there documentation required to request a permanent increase in credit limit?
			8	Do all cardholders reconcile their expense reports on time?
			9	Do the cardholders provide the proper receipts with expense reports?
			10	Do cardholders review their monthly transactions for information correctness, completeness, and approve them each month?
			11	Is there a documented process when cardholder doesn't complete his/her responsibilities on time?
			12	Do cardholder supervisors review expense reports and approve them each month?
			13	Is there a documented process when the supervisor does not approve of an expenditure?
			14	Are all transactions charged to the correct GL account number prior to month end closing date?
			15	If a cardholder violates the p-card procedures and/or responsibilities, are there consequences other than revoking their p-card?
			16	If a cardholder violates the p-card procedures and/or responsibilities, is there a written procedure to revoke it?
			17	When a p-card holder leaves VSC employment, is there an exit process to obtain their p-card and all related receipts?
			18	Are exiting employee p-card accounts closed immediately?

Vermont State Colleges
FY 2014 Self-Assessment of Internal Control Questionnaire

College: _____

Certification Form

1. Person responsible for **completing** the questionnaire:

_____

Printed Name & Title

2. College Official* responsible for **certifying** the questionnaire:
   "As the Designated College Offical , I certify, to the best of my knowledge, that the answers provided in this Self-Assessment questionnaire are an accurate representation of the operations of this College ."

_____

Printed Name & Title of College - then complete certification below

* For this certification, *College Offical* refers to Presidents of the Vermont State Colleges, Deans of Administration or Chief Financial Officers.

Important: As the College Offical please select option (a) or (b) to complete certification.

(a). Electronic Certification Option for Appointing Authority
By checking this box (*with a left mouse click*), I authorize the OC to accept this document transmitted from my College email account as our official submission. In addition, I certify that my name as typed above shall be treated as my written signature for the purposes of certifying this document.

➢ **Important:** To electronically certify, the above box must be checked AND the file must be sent directly from the College Offical's email account to the Office of the Chancellor.

(b). Signed Certification Option for College Offical
If the electronic certification option is not used, then this *Certification Form* must be signed by the College Offical and mailed (*or scan & email*) to the OC address below.

_____

College Offical Signature & Date

Please return this certification with your Self-Assessment Questionnaire by February 19 to:
> **Richard Bourassa**
> **Office of the Chancellor**
> **Vermont State Colleges**
> **575 Stone Cutters Way, Suite 1**
> **PO Box 7**
> **Montpelier, VT 05601-0007**

Email: richard.bourassa@vsc.edu

Purchasing Card Review

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

DESCRIPTION OF SCHEDULED AUDIT:

P-Card transactions have a documented policy that must be adhered to. Supervisors must approve all monthly statements and receipts must be attached for all transactions. Transactions must be posted to the General Ledger in a timely and accurate manner to ensure that all expenses are properly accounted for.

The objectives will be to:

- Determine if program is working as designed.
- Determine if procedures are being followed.

Risks associated with P-card transactions may include:

- Improper usage
- Inaccurate or incomplete documentation
- Inadequate monitoring and reconciliation
- Additional time and workflow necessary for inaccurate accounting
- Allocation of available credit limits
- Credit rating effects if not managed correctly.

Purchasing Card Audit Requirements

Goal of Audit:

The Goal of this Audit is to determine if the program is working as designed and if procedures are being followed.

Data Collection Format:

The audit is to be conducted using the forms provided for the particular audit period and to submit completed forms upon request to the VSC Office of the Chancellor.

Background:

The schools will self-audit on a regular basis.

The audit should also review card usage and the possibility of canceling cards with little or no usage.

All Purchasing Card receipts should be maintained in the school's Business and/or Accounting Office.

Basic Card Procedures:

- Approval (proper) by supervisor or Department Head for all purchases identified on the Purchasing Card Log as indicated by the Cardholder.
- Receipt on file for every purchase.
- No tax charged. If yes, was credit received?
- School business only. No personal purchases are allowed.
- Single purchase limit assigned by Manager is adhered to – No splitting of transactions.
- Appropriate purchase.
- Just because a vendor may not be restricted, it does not mean that it is an acceptable purchase.
- Purchase of non-contract supplies and allowable services with a total value of $2,000.00 or less per transaction. VSC guidelines apply.
- The card is not intended to avoid or bypass appropriate purchasing or payment procedures.
- Shipments to home are not allowed.

The Audit will be conducted in two parts:

Part 1: Cardholders:

- A random selection of employees by school will be audited. A minimum of 15 or 20% of the cards issued to a school will be audited. Three out of twelve months will be audited for each cardholder.
- Receipts: Spot check to see if receipts are on file. If receipts are not present, the responsible employee will have to document purchase and present purchase made.
- Are purchases in line with the employee's job responsibility?
- Splitting transactions: If more than one purchase was made by an individual on the same day; review timing of purchase, product/service purchased as well as individual card limits for that individual.
- Spot check of items purchased on the card – Where are they?

Part 2: Vendors:

A list of purchases by vendor should be generated to review where the Purchasing Card is being used. Based on the data received, receipts by an individual should be pulled when the question is raised – what would the college need to purchase at this location?

Audit Results:

- After review of initial findings from a site visit, a meeting may be set up with each school to review findings and internal procedures. An audit report will then be developed. A draft report will be sent to each Dean of Administration or equivalent for review. Changes may be made based on their review.
- Based on the results of the audit, any action or changes in the program will be discussed at that time.