

**MEMORANDUM**

**TO:** VSC Audit Committee  
Linda Milne, Chair  
Lynn Dickinson  
Tim Jerman  
Jeff Kellar – State Auditor’s Office  
Karen Luneau  
Christopher Macfarlane

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

**DATE:** May 7, 2014

**SUBJECT:** Audit Committee Meeting scheduled for May 14, 2014

*Tom*

The Audit Committee of the VSC Board of Trustees will meet from 3:00-5:00 p.m. in Room 101 at the Chancellor’s Office in Montpelier. 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: 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**

**May 14, 2014**

**AGENDA**

A. ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the October 23, 2013 Meeting of the Audit Committee
2. Minutes of the February 12, 2014 Meeting of the Audit Committee

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Review FY2014 Audit Plan with O'Connor & Drew
2. Discuss FY2013 Audit Advisory Comments
3. Discuss FY2014 Internal Audit
  - a. P-card Compliance Review
  - b. Internal Control Questionnaire

A. ITEMS FOR DISCUSSION AND ACTION

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

The Audit Committee met on October 23, 2013 at the Chancellor's Office in Montpelier.

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

Committee members present: Lynn Dickinson, Tim Jerman, Karen Luneau, Christopher Macfarlane, Linda Milne (Chair)

Other trustees present: M. Jerome Diamond, Martha O'Connor

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

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

From the colleges: Tess Conant, Scott Dikeman, Janis Henderson, Loren Loomis Hubbell, Sheila Ladd, Geoff Lindemer, Barbara Martin, Sharron Scott

From the Public: Dave Dilulis – O'Connor & Drew, Kieth Goldie – O'Connor & Drew, Chris Stenmon – O'Connor & Drew

Chair Milne called the meeting to order at 12 p.m.

A. ITEMS FOR DISCUSSION AND ACTION

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

The committee unanimously approved the minutes of the May 23, 2013 meeting.

2. Review and Approval of FY2013 draft Audited Financial Statements and A-133 Report

The meeting began with introductions. Dave Dilulis from O'Connor & Drew (O&D) gave a brief overview of the firm. Chris Stenmon reviewed a handout that highlighted the required communications and significant accounting policies and transactions. He also reviewed upcoming GASB pronouncements. The significant

transactions for FY2013 were: A \$6.2M reduction in interest rate SWAP due to the interest rate market increasing; \$30M worth of cash transferred to TD Wealth for investment purposes; decrease in deposit with bond trustees of \$10M due to bond refinance and use of 2010 bond funds; increase in capital assets due to a \$12M software donation; and an increase in the OPEB accrual of \$7M.

Mr. Stenmon stated that the VSC was issued a clean opinion for the FY2013 audit. The audit went smoothly with full cooperation from VSC staff. He further stated that the FY2013 financial statements present fairly, in all material respects, the financial position of the VSC as of June 30, 2013 and 2012.

Kieth Goldie from O&D reviewed the FY2013 management letter. He noted that there were three comments in all. Two of the findings were small A-133 findings and the other had to do with inconsistent year-end payroll accruals. There were fewer findings this year than last so there was improvement. Mr. Goldie noted that all prior year comments were resolved for this audit with the exception of the payroll accrual issue noted above.

Mr. Dilulis spoke to the committee about fraud prevention. Chancellor Donovan reviewed with the committee that the VSC has a fraud prevention (whistleblower) hotline and all VSC employees are sent an annual reminder about it. Mr. Dilulis discussed potential fraud with credit cards. CFO Robbins reviewed the systems in place to help prevent fraud with credit cards.

The FY2013 Audit Report was accepted by the committee. The resolution passed and will be forwarded to the Board for its consideration.

Trustee Luneau made a motion that the Audit Committee enter executive session for the purposes of discussing VSC personnel with regard to the audit, and to include other Trustees and external auditors Dave Dilulis, Chris Stenmon, and Kieth Goldie from O'Connor & Drew. The motion was seconded by Trustee Jerman and adopted unanimously. The Audit Committee entered executive session with the external auditors at 1:30 p.m. The Audit Committee concluded the executive session with the external auditors at 1:50 p.m. and took no action.

3. Review O'Connor & Drew Proposal and Discuss Extending Contract through FY2016

CFO Robbins began the discussion by stating that VSC Policy 429 allows for a one-time extension of an existing contract not to exceed the original term or a

maximum of three years. He stated that the expiring contract has a four-year term so the maximum extension would be three years. CFO Robbins stated O&D have been good to work with and that they are available, professional and communicative. The college deans were in agreement of this assessment. Chair Milne said that she found them to be thorough and independent. CFO Robbins stated that the FY2013 fee is \$180,000 and that O&D is proposing to keep this same rate for years FY2014, FY2015 and FY2016. Chair Milne reviewed the document "Evaluating the Independent Auditor" and the committee was satisfied that O&D met the criteria discussed. The committee was in agreement about extending the contract for three years at \$180,000 annually.

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

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Conduct an Audit Committee Executive Session: Guidelines and Questions

There was no discussion on this agenda item

2. Fraud and the Responsibilities of the Government Audit Committee

There was no discussion on this agenda item

The Audit Committee meeting adjourned at 2:00 p.m.

2. Minutes of the February 12, 2014 Meeting of the Audit Committee

The Audit Committee met on February 12, 2014 at the Chancellor's Office in Montpelier.

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

Committee members present: Lynn Dickinson, Tim Jerman, Karen Luneau, Christopher Macfarlane, Linda Milne (Chair)

State representative to the Audit Committee: Jeff Kellar

Other trustees present: M. Jerome Diamond, Gary Moore, Martha O'Connor

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

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

From the colleges: Tess Conant, Scott Dikeman, Eileen Donovan, Janis Henderson, Loren Loomis Hubbell, Barbara Martin, Maurice Ouimet, Sharron Scott

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

A. ITEMS FOR DISCUSSION AND ACTION

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

The correct minutes were not included in the materials so no vote was taken. The minutes will be included in the next Audit Committee agenda. CFO Robbins noted that Committee members will receive the correct minutes tomorrow, February 13th.

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Discuss FY2013 Audit Advisory Comments

CFO Robbins noted that there were three advisory comments from FY2013. Two of the three have already been resolved so there is nothing further to note on them.

The third remains unresolved as it deals with a year-end accrual process. The controllers will focus on this at year-end to ensure that it is corrected.

2. Discuss FY2014 Internal Audit Plan

CFO Robbins noted that in years past the VSC usually focused the internal audit in 4-5 different areas. For FY2014 the focus will be in two areas: p-cards and a self-assessment of internal control questionnaire. The p-card audit will focus on the cardholder's adherence to the VSC p-card policy. Chair Milne noted that with so many p-cards in circulation, regular follow up is important. CFO Robbins noted that the move to p-cards was a conscious decision by the VSC to cut down on invoice processing. Auditor Kellar noted that there are efficiencies to be had but good controls are important.

CFO Robbins next discussed the self-assessment of internal control questionnaire. This will be a new item at the VSC and is one that the state uses annually. Steve Vantine, former auditor for the state, helped create this process at the VSC. Auditor Kellar noted that the state has been using this process for about ten years with success. CFO Robbins noted that this year's internal control questionnaire contains six sections and that each section will be sent to the appropriate department in each college for a response. The "no" answers will be followed up on to see where a policy or control could be implemented, and the "yes" answers will be spot checked. Chair Milne noted that this questionnaire could be expanded into other areas of the college to allow insight into internal control processes. CFO Robbins agreed that there are many other areas and the VSC will expand the control questionnaire as more experience is gained with this tool.

Chair Milne noted that this year college controllers will accompany the VSC internal auditor and thought that was a good idea. CFO Robbins said that it promotes cross training as well as allows the controllers to see other college controls and processes.

The meeting was adjourned at 1:35 p.m.

**B. ITEMS FOR INFORMATION AND DISCUSSION****1. Review FY2014 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
- 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, 2013-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:**

- Community College of Vermont and Lyndon State College
  - Monday May 5 – Wednesday May 7
- Castleton State College and Johnson State College
  - Monday May 12 – Wednesday May 14
- Vermont Technical College and Chancellor's Office
  - Monday May 19 – Thursday May 22

**Audit Field Work:**

- Community College of Vermont and Lyndon State College
  - Monday August 4 – Wednesday August 6
- Castleton State College and Johnson State College
  - Monday August 11 – Wednesday August 13
- Vermont Technical College
  - Monday August 25 – Thursday August 28
- Chancellor's Office
  - Week of August 25 (perform audit field work)
  - Week of September 8 and September 15 (audit of financial statements)



2. Discuss FY2013 Audit Advisory Comments

This is the same material that was presented to the Audit Committee at the February 12, 2014 meeting. Although nothing has changed since that time this was included for your reference.

There were three advisory comments for FY2013. Two have been resolved and the third involves the year-end payroll accrual that will be resolved at year end.

## 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 that 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 who 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.

### 3. Discuss FY2014 Internal Audit

#### a. P-card Compliance Review

We have included the p-card self-assessment internal control questionnaire that was submitted by each college and OC. This document will allow us to drill down to the college level based upon their individual answers. The percentages represent the answers from the six entities (the five colleges and the OC).

Following the control questionnaire are the FY2014 internal audit reports by entity. For FY2014 we reviewed compliance to the VSC p-card Policy. The objective was to provide reasonable assurance that the VSC is adhering to the VSC Procurement Card Program Manual. Given that there are approximately 485 VSC p-cards in use it is important to review this program periodically. The original intent of the p-card program was to cut down on paperwork and clerical effort while introducing the least amount of risk to the VSC. We believe we still meet these criteria. Each p-card has an assigned per transaction credit limit and a total credit limit to it. The cards are also individually restricted in what can be purchased.

During FY2014 the VSC internal auditor and a college controller visited each college and the OC to conduct p-card reviews. At a minimum 20% of cardholders had three months' worth of transactions reviewed. There was nothing of substance discovered. It was a good opportunity to review policies with the colleges and review where they needed to tighten up their processes. We will request that all p-card holders review the p-card policy during FY2015.

There were four areas that were consistently noted as issues on the internal audit report. These were: missing or mismatched receipts, inadequate supporting documentation, Vermont sales tax paid, and splitting transactions to overcome the p-card single transaction limit. Employees must submit receipts and proper documentation that supports their transaction. During FY2015 we will draft a procedure revision to allow a de minimus exception for sales tax. At year-end we might submit for a refund depending on the amount. We will also work with our p-card issuer to include the VSC sales tax ID on all cards. Instead of doing split transactions employees must request a temporary limit increase to their p-cards if their credit limit is not sufficient.

For the FY2015 internal audit report we will adopt the external audit report format of listing each finding and then having each entity respond to it rather than every college have a separate report. There is a lot of redundancy in how we currently do the internal audit reporting.

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

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

<b>Section 6: Purchasing Cards</b>		% Yes	% No	% N/A
1	Is there documentation needed for an employee to get a p-card?	100%		
2	Is there a document signed by the employee acknowledging receipt of the p-card and the responsibilities in its use?	100%		
3	Is there training for the new cardholder on the use of the p-card?	100%		
4	Is there refresher training on annual basis for current cardholders?		100%	
5	Is there criteria to determine a card holder's credit limit?	100%		
6	Is there documentation required to request a temporary increase in credit limit?	100%		
7	Is there documentation required to request a permanent increase in credit limit?	100%		
8	Do all cardholders reconcile their expense reports on time?	33%	67%	
9	Do the cardholders provide the proper receipts with expense reports?	100%		
10	Do cardholders review their monthly transactions for information correctness, completeness, and approve them each month?	100%		
11	Is there a documented process when cardholder doesn't complete his/her responsibilities on time?	50%	50%	
12	Do cardholder supervisors review expense reports and approve them each month?	100%		
13	Is there a documented process when the supervisor does not approve of an expenditure?	33%	67%	
14	Are all transactions charged to the correct GL account number prior to month end closing date?	50%	50%	
15	If a cardholder violates the p-card procedures and/or responsibilities, are there consequences other than revoking their p-card?	67%	33%	
16	If a cardholder violates the p-card procedures and/or responsibilities, is there a written procedure to revoke it?	33%	67%	
17	When a p-card holder leaves VSC employment, is there an exit process to obtain their p-card and all related receipts?	83%	17%	
18	Are exiting employee p-card accounts closed immediately?	100%		

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# **Vermont State Colleges**

## *Internal Audit Report FY2014*

Community College of Vermont  
Procurement Card Review  
Internal Control Self-Assessment Questionnaire (Pcard)

March 2014

**FINAL 5/5/2014****Introduction**

The Vermont State Colleges (VSC) procurement card (P-card) program allows employees to make purchases using college-furnished credit cards. The P-card program was introduced in 2007 with the intent to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions”. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place.

The VSC P-card is a Visa credit card issued by Bank of America. About 485 cards are issued to employees of the VSC’s colleges and offices. In fiscal year 2013, nearly \$6.2 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies.

**Background**

The VSC’s P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the VSC pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Chancellors Office pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy. Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$1,500 to \$200,000 dollars. Each card is also blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases receipts, and cardholders must surrender their cards upon termination of employment. Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile the monthly expense log. Receipts for each purchase must be attached to the log within the ImageNow scanning software. Cardholders must dispute any unacceptable charges and electronically or manually sign the log as evidence that all charges are appropriate. A manager also must electronically sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.



**FINAL 5/5/2014****Objectives**

In consideration of the internal audit process (performed annually) at the VSC, it was determined to perform a review at each of the individual VSC colleges of procurement card expense logs and the supporting documentation of purchases made by holders of VSC purchasing. The objectives of this review is to provide reasonable assurance that the colleges are in compliance with the VSC Procurement Care Program Manual, that expense logs are properly approved; documentation has been provided supporting the expenditure; and purchases are in line with cardholder's job responsibility.

**Scope**

This review was performed by the Office of the Chancellor Finance staff and a Controller /Business Manager from one of the other VSC colleges. We examined three separate monthly logs on 15 of 57 (20% or 15 minimum) cardholders for purchases made during the period of July 1, 2013 and January 20, 2014

**Methodology**

The audit approach included interviews with the Director of Business Operations and the Fiscal Specialist (P-card Administrator). We reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at the college.

**Findings**

<b>Sample Size – Expense Logs = 45</b>			
<b>Requirement</b>	<b>Met</b>	<b>Did not meet</b>	<b>% did not meet</b>
<b>Signed and approved Expense Log</b>	44	1	2%
<b>Approved on Time</b>	45	0	0%
<b>Missing Expense Logs</b>	45	0	0%
<b>Sample Size – Transactions = 702</b>			
<b>Missing or mismatched receipts</b>	696	6	.9%
<b>Adequate support documentation</b>	701	1	.1%
<b>Vt. Sales tax included</b>	689	13	1.9%
<b>Split Transactions</b>	699	3	.4%

**FINAL 5/5/2014****Testing Results**

1. Expense log approvals
  - A. There was 1 of 45 expense logs that was not signed by the supervisor.
  - B. There were 44 of 45 expense logs that were signed by the supervisor and/or Deans but did not include cardholder signature.
2. Documentation
  - A. There were 1 of 702 transactions that did not have a receipt and there was no missing receipt form completed.
  - B. There was 1 of 702 transactions that contained a credit card slip only – no itemized detail of what was purchased.
  - C. There were 5 of 702 transactions that the vendor name on receipts didn't match the expense log, however, the amounts matched.

Purchasing Practices

3. Sales Tax – There were 13 of 702 transactions noted that included a total of \$103.55 in sales tax. Some of these 13 were from local grocery stores.
4. Split Transactions – A cardholder had a temporary increase of the single transaction limit to \$5K for the cycle. There were 3 of 702 transactions (\$6,668.14 split to \$3,000 & 3,668.14; \$9,608.79 split to \$4,608.79 & \$5,000; \$7,870.18 split into 2 separate invoices \$3,935.60 & \$3,934.58).

**Recommendations**

We recommend that the Community College of Vermont Dean of Administration direct staff to ensure that

- Expense logs should be signed by the cardholder or electronic signature via cardholder e-mail when submitting their expense log to the individual's budget manager.
- Cardholders follow up with vendors to get credit for sales tax paid to vendors over a predetermined material amount.
- Follow up with cardholders regarding split transaction violations.

**FINAL 5/5/2014****Management Response**

*Thank you for the opportunity to respond to the finding and recommendations of the recently completed audit of Community Colleges of Vermont (CCV) procurement card (P-card) program.*

*We agree that expense logs should be signed by the P-cardholder and subsequently approved by the individual's budget manager in a timely fashion. In response to the two specific findings related to the expense log approvals, it was determined that our office did have in our possession the cardholder's electronic signed expense logs. Due to a staffing change in our accounts payable function, these logs had not been imaged and linked to the appropriate documentation. CCV has reviewed our P-card month-end processes and as a quality control, is now ensuring that all required supporting documentation is imaged and linked correctly, so records can be easily accessed.*

*In response to the issues surrounding supporting documentation of purchases, CCV agrees with the findings but would like to note that the exceptions identified regarding vendor receipts not matching the Bank of America expense log, is a result of the bank's internal reporting system. The alignment of vendor names on P-card receipts (for instance having a DBA, "doing business as" designation) and the Bank of America reporting system is not within the College's control.*

*CCV agrees that cardholders should make their best efforts to ensure the college does not pay Vermont sales tax on its purchases. We also agree that there should be attempts to avoid paying or recover any sales tax paid over a pre-determined minimal amount. (Twelve of the thirteen receipts identified as exceptions totaled only \$16.07 in sales tax paid. We are seeking reimbursement from our vendor for the sales tax paid on the other receipt noted as an exception.)*

*CCV supports having the VSC tax exempt number embossed on any newly issued VSC P-cards. To assist our cardholders and our vendors, the CCV Business Office has been affixing a label indicating the VSC tax exempt number onto its p-cards. The college actively educates our cardholders through initial training and ongoing monitoring of p-card accounts. We also provide tax exempt certificates to our vendors upon request or, as a result of staff identifying incorrect sales tax charges during our normal monthly purchasing review process.*

*We also agree that splitting transactions to avoid spending authorization limits is not an acceptable practice and is discouraged. There are times when limits must be increased and we have a process in place to ensure that this is appropriately approved. The Business Office was aware of two of the exceptions noted prior to an expedited purchase being made. The third exception identified was in fact, not a split*

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*transaction, but was for two separate orders from the same vendor, one each for our Newport and Brattleboro Centers.*

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# **Vermont State Colleges**

## *Internal Audit Report FY2014*

Castleton State College  
Procurement Card Review  
Internal Control Self-Assessment Questionnaire (Pcard)

March 2014

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**FINAL 5/5/2014****Introduction**

The Vermont State Colleges (VSC) procurement card (P-card) program allows employees to make purchases using college-furnished credit cards. The P-card program was introduced in 2007 with the intent to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place.

The VSC P-card is a Visa credit card issued by Bank of America. About 485 cards are issued to employees of the VSC’s colleges and offices. In fiscal year 2013, nearly \$6.2 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies.

**Background**

The VSC’s P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the VSC pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Chancellors Office pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy. Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$1,500 to \$200,000 dollars. Each card is also blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases receipts, and surrender their cards upon termination of employment. Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile the expense log. Receipts for each purchase must be attached to the log within the ImageNow scanning software. Cardholders must dispute any unacceptable charges and electronically or manually sign the log as evidence that all charges are appropriate. A manager also must electronically sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.

**FINAL 5/5/2014****Objectives**

In consideration of the internal audit process (performed annually) at the VSC, it was determined to perform a review at each of the individual VSC colleges of procurement card expense logs and the supporting documentation of purchases made by holders of VSC purchasing. The objectives of this review is to provide reasonable assurance that the colleges are in compliance with the VSC Procurement Care Program Manual, that expense logs are properly approved; documentation has been provided supporting the expenditure; and purchases are in line with cardholder's job responsibility.

**Scope**

This review was performed by the Office of the Chancellor Finance staff and a Controller /Business Manager from one of the other VSC colleges. We examined three separate monthly logs on 27 of 136 (20%) cardholders for purchases made during the period of July 1, 2013 and January 20, 2014

**Methodology**

The audit approach included interviews with the Controller and the Accounts Payable Manager (P-card Administrator). We reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at the college.

**Findings**

<b>Sample Size – Expense Logs = 81</b>			
<b>Requirement</b>	<b>Met</b>	<b>Did not meet</b>	<b>% did not meet</b>
<b>Signed and approved Expense Log</b>	80	1	1%
<b>Approved on Time</b>	80	1	1%
<b>Missing Expense Logs</b>	81	0	0%
<b>Sample Size – Transactions = 943</b>			
<b>Missing or mismatched receipts</b>	938	5	.5%
<b>Adequate support documentation</b>	929	14	1.5%
<b>Vt. Sales tax included</b>	920	23	2.4%
<b>Split Transactions</b>	928	15	1.6%

**FINAL 5/5/2014****Testing Results**

1. Expense log approvals - There was 1 of 81 expense logs that was not approved by the supervisor.
2. Documentation
  - A. There were 10 of 943 transactions that contained receipts that either couldn't be read, receipt was partially scanned, or receipt didn't detail what was purchased.
  - B. There were 2 of 943 transactions that contained receipts that receipt amount didn't match the expense log transaction amount.
  - C. There were 3 of 943 transactions with missing receipt forms totaling \$974 which included 2 hotel charges of \$411.34 and \$528.84. Hotels should have been subsequently contacted to obtain copy of receipts.
  - D. There were 3 of 943 transactions that had missing receipt forms completed for separate membership payments.
  - E. There was 1 of 943 transactions that contained a \$149.00 charge that had no receipt, however, notation on expense log states this is to be refunded. Checked Jan & Feb expense log – no credit received.

**Purchasing Practices**

3. Sales Tax – There were 23 of 943 transactions noted that included a total of \$122.45 in sales tax. Many of these 23 were from local grocery stores and immaterial.
4. Split Transaction – There were 15 of 943 transactions that were split transactions.
5. Credit Card Theft – There were 6 of 943 transactions that were unauthorized transactions. All 6 were followed up on and credits received either in the current or subsequent month.
6. Unallowed Transactions – There were 2 of 943 transactions that were donations totaling just under \$500 in violation of para 2.4.6 of Pcard Manual.

**Recommendations**

We recommend that the Castleton State College Dean of Administration direct staff to ensure that:

- Prior to scanning into ImageNow, a review of receipts is made to determine if receipts will be dark enough to be legible when viewing in ImageNow.



**FINAL 5/5/2014**

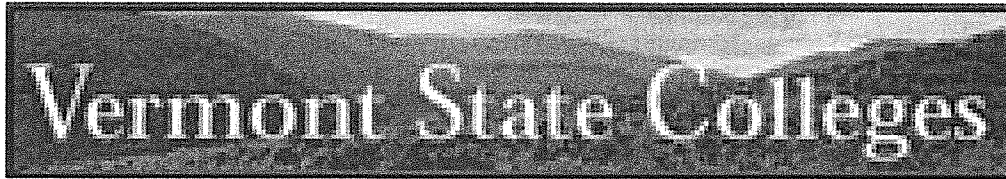
- Since these electronic records in ImageNow are required to be kept for 7 years without the retainage of the paper copy, a closer review during the QA imaging process to ensure receipts can be viewed, read adequately, and complete.
- Review existing or implement process to ensure expense logs and supporting documentation are scanned into ImageNow in a timely manner.
- Re-emphasis to cardholders to provide receipt documentation to support the amount of the transaction. Any variance will need an explanation.
- Supporting detail receipts for all purchase card transactions be submitted, including all meals over \$25.

**Management Responses**

- Castleton strives for completed and approved expenses logs by the last business day of the month and will continue to work towards that goal. Reminder emails and accountability procedures are in place to obtain timely logs from cardholders.
- Castleton has copies of our tax-exempt form available for all cardholders. We will continue to provide this to vendors and remind cardholders of our status as to increase consistency. In some cases, vendor personnel are unfamiliar with the form and procedures around tax exempt status and college employees forego the waiver in order to expedite the transaction. In most cases, the amounts are nominal.
- The College will work to improve the legibility and readability of receipts scanned into Image Now. Additional time will be allocated to performing this task to ensure completeness.
- Castleton will clarify the types of proper detailed documentation that is required to support a purchase on the purchasing card.

**FINAL (5/6/2014)**

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# **Vermont State Colleges**

## *Internal Audit Report FY2014*

Johnson State College  
Procurement Card Review  
Internal Control Self-Assessment Questionnaire (Pcard)

March 2014

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**FINAL (5/6/2014)****Introduction**

The Vermont State Colleges (VSC) procurement card (P-card) program allows employees to make purchases using college-furnished credit cards. The P-card program was introduced in 2007 with the intent to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place.

The VSC P-card is a Visa credit card issued by Bank of America. About 485 cards are issued to employees of the VSC’s colleges and offices. In fiscal year 2013, nearly \$6.2 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies.

**Background**

The VSC’s P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the VSC pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Chancellors Office pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy. Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$1,500 to \$200,000 dollars. Each card is also blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases receipts, and surrender their cards upon termination of employment. Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile the monthly expense log. Receipts for each purchase must be attached to the log within the ImageNow scanning software. Cardholders must dispute any unacceptable charges and electronically or manually sign the log as evidence that all charges are appropriate. A manager also must electronically sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.

**FINAL (5/6/2014)****Objectives**

In consideration of the internal audit process (performed annually) at the VSC, it was determined to perform a review at each of the individual VSC colleges of procurement card expense logs and the supporting documentation of purchases made by holders of VSC purchasing. The objectives of this review is to provide reasonable assurance that the colleges are in compliance with the VSC Procurement Care Program Manual, that expense logs are properly approved; documentation has been provided supporting the expenditure; and purchases are in line with cardholder's job responsibility.

**Scope**

This review was performed by the Office of the Chancellor Finance staff and a Controller /Business Manager from one of the other VSC colleges. We examined three separate monthly logs on 14 of 70 (20%) cardholders for purchases made during the period of July 1, 2013 and January 20, 2014

**Methodology**

The audit approach included interviews with the Controller and the Senior Accounting Specialist (P-card Administrator). We reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at the college.

**Findings**

<b>Sample Size Expense Logs = 45</b>			
<b>Requirement</b>	<b>Met</b>	<b>Did not meet</b>	<b>% did not meet</b>
<b>Signed and approved Expense Log</b>	38	4	10%
<b>Approved on Time</b>	42	0	0%
<b>Missing Expense Logs</b>	42	0	0%
<b>Sample Size – Transactions = 584</b>			
<b>Missing or mismatched receipts</b>	575	9	1.5%
<b>Adequate support documentation</b>	576	8	1.4%
<b>Vt. Sales tax included</b>	578	6	1.0%
<b>Split Transactions</b>	584	0	0%

**FINAL (5/6/2014)****Testing Results**

1. Expense log approvals
  - A. There were 3 of 42 expense logs that were not signed by the cardholder but only the supervisor.
  - B. There was 1 of 42 expense logs with cardholder name typed in but no actual signature. Approved by the Dean of Administration.
2. Documentation
  - A. There was 1 of 584 transactions that receipt was incomplete.
  - B. There were 2 of 584 transactions that receipt amount didn't match the expense log transaction amount.
  - C. There was 1 of 584 transactions that contained a missing receipts form and was signed by the cardholder, however, there was no amount listed.
  - D. There were 9 of 584 transactions that did not have a receipt and there no missing receipt form was completed.
  - E. There were 4 of 584 transactions that were monthly statements for receipts that provide little or no information on what was purchased.

Purchasing Practices
3. Sales Tax – There were 6 of 584 transactions noted that included a total of \$38.20 in sales tax.

**Recommendations**

We recommend that the Johnson State College Dean of Administration direct staff to ensure that:

- Re-emphasis to cardholders to provide receipt documentation to support the amount of the transaction. Any variance will need an explanation.
- Supporting receipts for all purchase card transactions be submitted, including all meals over \$25.
- Since these electronic records in ImageNow are required to be kept for 7 years without the retainage of the paper copy, a closer review during the QA imaging process to ensure receipts can be viewed, read adequately, and is complete.

**Management Responses**

Johnson State College will reinforce with supervisors and cardholders the need to completely reconcile the receipts and expense logs including the accurate completion of missing receipt forms. Logs and forms that are incomplete will be returned to the cardholder for correction and completion. All employees who purchase items regularly will be reminded of the importance of using the tax exempt certificate.

**FINAL (5/6/2014)**

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# **Vermont State Colleges**

## *Internal Audit Report FY2014*

Lyndon State College  
Procurement Card Review  
Validation Review of Internal Control Self-Assessment Questionnaire (P-card)

March 2014

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**FINAL (5/6/2014)****Introduction**

The Vermont State Colleges (VSC) procurement card (P-card) program allows employees to make purchases using college-furnished credit cards. The P-card program was introduced in 2007 with the intent to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place.

The VSC P-card is a Visa credit card issued by Bank of America. About 485 cards are issued to employees of the VSC’s colleges and offices. In fiscal year 2013, nearly \$6.2 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies.

**Background**

The VSC’s P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the VSC pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Chancellors Office pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy. Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$1,500 to \$200,000 dollars. Each card is also blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases receipts, and surrender their cards upon termination of employment.

Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile monthly expense log. Receipts for each purchase must be attached to the log within the ImageNow scanning software. Cardholders must dispute any unacceptable charges and electronically or manually sign the log as evidence that all charges are appropriate. A manager also must electronically or manually sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.

**FINAL (5/6/2014)****Objectives**

In consideration of the internal audit process (performed annually) at the VSC, it was determined to perform a review at each of the individual VSC colleges of procurement card expense logs and the supporting documentation of purchases made by holders of VSC purchasing cards. The objectives of this review is to provide reasonable assurance that the colleges are in compliance with the VSC Procurement Care Program Manual, that expense logs are properly approved; documentation has been provided supporting the expenditure; and purchases are in line with cardholder's job responsibility.

**Scope**

This review was performed by the Office of the Chancellor Finance staff and a Controller or Business Manager from one of the other VSC colleges. We examined three separate monthly logs on 17 of 85 (20%) cardholders for purchases made during the period of July 1, 2013 and January 20, 2014.

**Methodology**

The audit approach included interviews with the Associate Dean of Administration and the Staff Accountant (P-card Administrator). We reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at the college.



**FINAL (5/6/2014)****Findings**

<b>Sample Size – Expense Logs = 51</b>			
<b>Requirement</b>	<b>Met</b>	<b>Did not meet</b>	<b>% did not meet</b>
<b>Signed and approved Expense Log</b>	47	4	8%
<b>Approved on Time</b>	46	5	10%
<b>Missing Expense Logs</b>	48	1	2%
<b>Sample Size – Transactions = 1,093</b>			
<b>Missing or mismatched receipts</b>	1073	20	1.8%
<b>Adequate support documentation</b>	1084	9	.8%
<b>Vt. Sales Tax Included</b>	1068	25	2.3%
<b>Split Transactions</b>	1092	1	.1%

**Testing Results**

1. Expense log approvals
  - A. There were 4 of 51 expense logs that were not signed by cardholder or approved by the supervisor. (3 cardholders)
  - B. There were 5 of 51 expense logs that were untimely approved 2-4 months after cycle close. (2 cardholders)
  - C. There was 1 of 51 expense logs (Dec. 2013) that has not been approved as of 3/25/14.
  - D. Most of the expense logs reviewed were not signed by cardholder or had e-mail from cardholder representing a signature. Cardholder e-mails indicating cardholder signature was received but not included with the expense logs.
2. Documentation
  - A. There was 1 of 51 expense logs that were not found in ImageNow
  - B. There were 9 of 1,093 transactions that contained receipts that either couldn't be read, receipt was partially scanned, or receipt didn't detail what was purchased.

**FINAL (5/6/2014)**

- C. There were 3 of 1,093 transactions that contained receipts that receipt amount didn't match the expense log transaction amount.
- D. There were 17 of 1,093 transactions that did not have a receipt and there no missing receipt form was completed.

**Purchasing Practices**

- 3. Sales Tax – There were 25 receipts noted out of hundreds that included a total of \$40.67 in sales tax. Many of these 25 were from local grocery stores and all were immaterial.
- 4. Split Transaction – There was 1 purchase in the amount of \$5,522.98 that was split into 2 transactions at \$2,761.49 ea. The total amount exceeded the cardholder's single transaction limit. There was a notation on the expense log questioning this transaction, and subsequently, the cardholder's credit limit was increased.

**Recommendations**

We recommend that the Lyndon State College Dean of Administration direct staff to ensure that:

- Expense logs should be signed by the cardholder or electronic signature via cardholder e-mail when submitting their expense log to the individual's budget manager.
- Expense logs are consistently approved by the budget manager on a timely basis.
- Re-emphasis to cardholders to provide receipt documentation to support the amount of the transaction. Any variance will need an explanation.
- Supporting receipts for all purchase card transactions be submitted, including all meals.
- Review existing or implement process to ensure all expense logs and any supporting documentation are scanned into ImageNow in a timely manner.
- Since these electronic records in ImageNow are required to be kept for 7 years without the retainage of the paper copy, a closer quality review during the QA imaging process which will help to ensure receipts can be viewed and read adequately. Prior to scanning into ImageNow, a review of receipts is made to determine if receipts will be dark enough to be legible when viewing in ImageNow.

**Management's Response**

LSC has been working to correct timeliness, approval, and completeness issues with p-cards. The Dean of Administration has enlisted the assistance of her peers in the leadership team, to in turn work with their staff and the faculty, to correct historical problems and set the tone for compliance going forward. Most of the findings in this report were independently discovered and corrected by LSC before we received the

**FINAL (5/6/2014)**

findings. We agree that the scanning of some documentation into ImageNow was untimely and will rectify timeliness and quality control on image legibility, going forward. The Dean of Administration and Associate Dean of Administration review monthly status reports on p-card reconciliations and follow up with cardholders and supervisors.

Every transaction cited for the payment of sales tax had tax amounts that were immaterial. The College does not follow up on amounts under \$10. Often the amount of time it takes to get and exempt sale at the register costs well more in human time than the extremely tiny amounts we save. LSC recommends that the policy be changed to allow a de minimus exception for sales tax. We are intrigued by the suggestion of imprinting our tax exempt number on the p-cards and hope that the VSC will follow up on that suggestion.

**FINAL (5/6/2014)**

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# **Vermont State Colleges**

## *Internal Audit Report FY2014*

Vermont Technical College  
Procurement Card Review  
Internal Control Self-Assessment Questionnaire (Pcard)

March 2014

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**FINAL (5/6/2014)****Introduction**

The Vermont State Colleges (VSC) procurement card (P-card) program allows employees to make purchases using college-furnished credit cards. The P-card program was introduced in 2007 with the intent to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place.

The VSC P-card is a Visa credit card issued by Bank of America. About 485 cards are issued to employees of the VSC’s colleges and offices. In fiscal year 2013, nearly \$6.2 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies.

**Background**

The VSC’s P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the VSC pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Chancellors Office pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy. Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$1,500 to \$200,000 dollars. Each card is also blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases receipts, and surrender their cards upon termination of employment. Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile the monthly expense log. Receipts for each purchase must be attached to the log within the ImageNow scanning software. Cardholders must dispute any unacceptable charges and electronically or manually sign the log as evidence that all charges are appropriate. A manager also must electronically sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.

**FINAL (5/6/2014)****Objectives**

In consideration of the internal audit process (performed annually) at the VSC, it was determined to perform a review at each of the individual VSC colleges of procurement card expense logs and the supporting documentation of purchases made by holders of VSC purchasing. The objectives of this review is to provide reasonable assurance that the colleges are in compliance with the VSC Procurement Care Program Manual, that expense logs are properly approved; documentation has been provided supporting the expenditure; and purchases are in line with cardholder's job responsibility.

**Scope**

This review was performed by the Office of the Chancellor Finance staff and a Controller /Business Manager from one of the other VSC colleges. We examined three separate monthly logs on 24 of 120 (20%) cardholders for purchases made during the period of July 1, 2013 and January 20, 2014

**Methodology**

The audit approach included interviews with the Controller and Assistant to the Dean of Administration (P-card Administrator). We reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at the college.

**Findings**

<b>Sample Size – Expense Logs = 72</b>			
<b>Requirement</b>	<b>Met</b>	<b>Did not meet</b>	<b>% did not meet</b>
<b>Signed and approved Expense Log</b>	71	1	1%
<b>Approved on Time</b>	72	0	0%
<b>Missing Expense Logs</b>	70	2	3%
<b>Sample Size – Transactions = 752</b>			
<b>Missing or mismatched receipts</b>	745	7	.9%
<b>Adequate support documentation</b>	747	5	.7%
<b>Vt. Sales tax included</b>	735	17	2.3%
<b>Split Transactions</b>	750	2	.3%

**FINAL (5/6/2014)****Testing Results**

1. Expense log approvals - There was 1 of 72 expense logs that was not signed by the supervisor.
2. Documentation
  - A. There were 4 of 752 transactions that receipt was incomplete.
  - B. There were 7 of 752 transactions that did not have a receipt and there was no missing receipt form completed.
  - C. There was 1 of 752 transactions with a missing receipt form for Hotel charge of \$674. Hotel receipts should be followed up on.
  - D. There was 1 of 72 expense logs whose scanned image was missing Txn Number column and post end date.
  - E. There were 2 of 72 expense logs ( a Sept & a Dec) that were not scanned into ImageNow until March.

Purchasing Practices

3. Sales Tax – There were 17 of 752 transactions noted that included a total of \$105.66 in sales tax. Some of these 17 were from local grocery stores.
4. Split Transactions
  - A. There was 1 of 752 transactions (\$3,168) split into 3 separate payments (2 @ \$1,500 and 1 @ \$168). Appears to be done to get around \$1,500 single transaction limit.
  - B. There was 1 transaction with a reference to a contract (no copy). Initial deposit of \$1000 in Sept, then \$1000/day on 10/23, 10/24, & 10/25.
5. Personal Use – A \$90 payment made to Vt. State Colleges for JSC EDP service fee on cardholder student account.

**FINAL (5/6/2014)****Recommendations**

We recommend that the Vermont Technical College Dean of Administration direct staff to ensure that:

- Since these electronic records in ImageNow are required to be kept for 7 years without the retainage of the paper copy, a closer review during the QA imaging process to ensure receipts can be viewed, read adequately, and is complete.
- Emphasis to cardholders to follow up on obtaining replacement of itemized hotel receipts.
- Emphasis to cardholders to follow up on credits due for duplicate charges, refunds, etc.
- Personal use strictly prohibited per policy.

**Management Responses**

- VTC agrees that receipts in ImageNow need to be readable. We will ensure that receipts are readable by checking the images before we end the scanning process.
- We recognize the importance of having proper receipts for hotels and other expenses. We will work with employees that have failed to submit receipts.
- Personal use of the Pcard is strictly prohibited. Our plan is to send the Pcard policy out to all VTC employees annually to remind them of the policies and procedures. People that ignore the policies and procedures will have their Pcards revoked.



**FINAL (5/6/2014)**

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# **Vermont State Colleges**

## *Internal Audit Report FY2014*

Office of the Chancellor  
Procurement Card Review  
Internal Control Self-Assessment Questionnaire (Pcard)

March 2014

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**FINAL (5/6/2014)****Introduction**

The Vermont State Colleges (VSC) procurement card (P-card) program allows employees to make purchases using college-furnished credit cards. The P-card program was introduced in 2007 with the intent to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions. Savings are realized because fewer steps are needed to initiate and process transactions, and checks are not issued. While efficient and convenient, P-cards are vulnerable to misuse or fraud if adequate controls are not in place.

The VSC P-card is a Visa credit card issued by Bank of America. About 485 cards are issued to employees of the VSC’s colleges and offices. In fiscal year 2013, nearly \$6.2 million in goods and services were purchased with the cards. Most purchases are for office supplies and general business expenses. Cardholders must follow both P-card and general purchasing policies.

**Background**

The VSC’s P-card policy includes controls designed to protect against potentially fraudulent or abusive transactions and to ensure that purchases are necessary, appropriate, and for a reasonable cost. The P-card works just like any personal credit card, but the VSC pays the bill. Cardholders are able to use their cards without prior supervisory review or approval, which makes them more vulnerable to misuse or fraud. There are also potential risks because the Chancellors Office pays the full amount of their charges unless the cardholder notifies the bank of a discrepancy. Cards have several built-in controls. Each card is assigned both a credit limit and a single transaction limit, ranging from \$1,500 to \$200,000 dollars. Each card is also blocked from purchasing from vendors in specific categories to help prevent inappropriate or high-risk purchases receipts, and surrender their cards upon termination of employment. Cardholders are also required to maintain documents regarding their purchasing activity. According to P-card policy, they must maintain a monthly transaction log which allows management to review the types of goods and services purchased and determine where the card is being used. A log also provides a record of activity enabling the cardholder to reconcile the monthly expense log. Receipts for each purchase must be attached to the log within the ImageNow scanning software. Cardholders must dispute any unacceptable charges and electronically or manually sign the log as evidence that all charges are appropriate. A manager also must electronically sign the log, indicating purchases were approved and are legitimate business expenditures. These controls help both the cardholder and management to identify errors, prevent misuse or fraudulent use of the card, and provide documentary evidence for periodic audits.

**FINAL (5/6/2014)****Objectives**

In consideration of the internal audit process (performed annually) at the VSC, it was determined to perform a review at each of the individual VSC colleges of procurement card expense logs and the supporting documentation of purchases made by holders of VSC purchasing. The objectives of this review is to provide reasonable assurance that the colleges are in compliance with the VSC Procurement Care Program Manual, that expense logs are properly approved; documentation has been provided supporting the expenditure; and purchases are in line with cardholder's job responsibility.

**Scope**

This review was performed by the Office of the Chancellor Finance staff and a Controller /Business Manager from one of the other VSC colleges. We examined three separate monthly logs on 9 of 17 (53%) cardholders for purchases made during the period of July 1, 2013 and January 20, 2014

**Methodology**

The audit approach included interview with the HR Specialist (P-card Administrator). We reviewed policies, observed procedures, examined records and documents, and selected and tested a sample of P-card purchases and program controls at the college.

**Findings**

<b>Sample Size – Expense Logs = 27</b>			
<b>Requirement</b>	<b>Met</b>	<b>Did not meet</b>	<b>% did not meet</b>
<b>Signed and approved Expense Log</b>	26	1	4%
<b>Approved on Time</b>	27	0	0%
<b>Missing Expense Logs</b>	27	0	0%
<b>Sample Size – Transactions = 167</b>			
<b>Missing or mismatched receipts</b>	165	2	1.2%
<b>Adequate support documentation</b>	142	25	15%
<b>Vt. Sales tax included</b>	156	11	6.6%
<b>Split Transactions</b>	27	0	0%

**FINAL (5/6/2014)****Testing Results**

1. Expense log approvals
  - A. There was 1 of 27 expense logs that was not signed by the supervisor.
  - B. There were 3 of 27 expense logs that should be signed by member of BOT instead of Chief Financial Officer.
2. Documentation
  - A. There were 25 of 167 transactions that contained a receipt that was incomplete.
  - B. There were 2 of 167 transactions that did not have a receipt and there was no missing receipt form completed.

**Purchasing Practices**

3. Sales Tax – There were 11 of 167 transactions noted that included a total of \$89.48 in sales tax. There were 15 other receipts that included rooms & meals tax from local grocery stores or restaurants.
4. Personal Use – A \$5.40 charge for toothpaste included on hotel invoice. Could not confirm this was reimbursed to VSC.
5. GL Accounts -There were 14 of 167 transactions that appear to be charged to an incorrect object code and no journal entries to reclassify expenses.

**Recommendations**

We recommend that the Office of the Chancellor Chief Financial Officer direct staff to ensure that:

- Personal use strictly prohibited per policy
- Prior to p-card cycle ending, OC Finance staff member review General Ledger account numbers being charged. Notify cardholder prior to making changes.
- Applicable meal and meeting receipts are reviewed to include business purpose and attendance. (All VSC)
- Non-meal sales taxes are followed up on by cardholder.
- Reiterate to cardholders the information required includes the purpose and the attendees regarding meals and meeting expense receipts (All VSC).
- Since these electronic records in ImageNow are required to be kept for 7 years without the retainage of the paper copy, a closer review during the QA imaging process to ensure receipts can be viewed, read adequately, and is complete.

**Management Responses**

**FINAL (5/6/2014)**

- Staff who reviews PCards is reviewing policies to ensure she is aware of documentation required
- Due to staff time required to get sales tax refunded, our procedure is to seek refunds only in cases where the sales tax is significant
- Management will develop processes for retraining staff on required documentation

b. Internal Control Questionnaire

The internal 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 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. The percentages represent the answers from the six entities (the five colleges and the OC).

We think that this is a good tool to use going forward. The variability in the answers across the campuses can either point to a lack of understanding of policies or perhaps a lack of clear policy. During FY2015 we will review these at the appropriate VSC team level to ensure we have consistent policies and understanding across the VSC.

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

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

<b>Section 1: General Controls</b>		% Yes	% No	% N/A
<b>1</b>	Are there written rules, guidelines, policies, and/or procedures for all transactions and critical activities in this department?	67%	33%	
<b>2</b>	Does the College / Department have copies of all current VSC and college policies and procedures manuals?	100%		
<b>3</b>	Do personnel have the knowledge and skills required for their jobs?	100%		
<b>4</b>	Are month end financial reports in Colleague reviewed and verified for accuracy on a monthly basis?	83%	17%	
<b>5</b>	Are period end financial reports reconciled to departmental supporting documents on a monthly basis or quarterly basis?	83%	17%	
<b>6</b>	Is a member of management reviewing and approving reconciliations in a timely manner?	100%		
<b>7</b>	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.	100%		
<b>8</b>	Does your College / Department have an operating plan that states goals to be accomplished and a timeline for completion of tasks?	50%	50%	
<b>9</b>	Are College / Department goals and tasks prioritized according to importance?	83%	17%	
<b>10</b>	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?	50%	50%	
<b>11</b>	Are there disaster recovery procedures for critical areas in place?	100%		

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

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

<b>Section 2: Cash and Collections</b>		% Yes	% No	% N/A
1	Does the College / Department have any written procedures for cash handling and related controls?	100%		
2	Is a receipt immediately prepared upon collection of funds?	83%	17%	
3	Are checks restrictively endorsed with "For Deposit Only for XXXXX College" immediately upon receipt?	67%	33%	
4	Are all checks made payable to XXX College or XXX foundation?	67%	33%	
5	Do two different individuals verify all deposits prior to making the deposit?	50%	50%	
6	Does someone prepare the deposit other than the person collecting and recording receipts?	33%	67%	
7	Are collections held in a secure manner until deposited (i.e. in a locked location)?	100%		
8	Are safe combinations restricted to a minimum number of employees?	83%		17%
9	Are safe combinations changed after termination of an employee who previously had access?	50%	17%	33%
10	Are collections deposited intact (i.e. no expenditures made from collections)?	83%		17%
11	Are deposits made in a timely manner (i.e. generally the same or next business day)?	100%		
12	Is there segregation of duties among opening mail, processing cash, and account reconciliation?	83%	17%	
<b>Cash Register/Touchnet Operations</b>				
13	Are there written procedures for the operation of the cash registers/TouchNet?	83%		17%
14	Does the cashier count the change fund before putting it in the drawer?	67%		33%
15	Are register readings taken when a cashier's shift ends, when a relief cashier takes over, or other various times throughout the day?	33%		67%
16	Does someone other than the cashier approve voids?		33%	67%
17	Does an independent person reconcile cash register closing reports to actual receipts collected?	17%	50%	33%
18	Is the check suspension list, issued by the Business Office, referred to upon accepting checks?	17%	16%	67%
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)?	50%	17%	33%
20	Is a record of over/shortages by the cashier maintained?	67%		33%
21	Is there a ceiling on overages/shortages before corrective action is taken?	67%		33%
22	Are the individuals who handle money trained in procedures to be followed in the event of a robbery or fire?	67%	17%	16%
<b>Petty Cash (if applicable)</b>				
23	Are petty cash funds locked in a secure area?	67%		33%
24	Is access to petty cash funds limited to the appropriate personnel?	67%		33%



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

<b>Section 2: Cash and Collections</b>		% Yes	% No	% N/A
<b>25</b>	Does someone other than the fund custodian periodically count the fund?	67%		33%
<b>26</b>	Are petty cash funds used only for appropriate purposes that are supported by receipts?	67%		33%

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

<b>Section 3: Equipment and Inventoried Assets</b>		% Yes	% No	% N/A
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?	100%		
2	Is Inventory Control notified of capitalized equipment that is scrapped, stolen, sold, traded in, loaned out, or transferred?	100%		
3	Does the College / Department keep a separate internal record of equipment valued under the capitalization amount of \$5,000?	50%	50%	
4	Is the departmental record continuously updated to reflect new purchases and dispositions?	83%	17%	
5	Is equipment kept in secured areas?	100%		

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

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

<b>Section 4 : Conflict of Interest</b>		% Yes	% No	% N/A
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?	67%	33%	

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

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

<b>Section 5: Computer Use and IT Controls</b>		% Yes	% No	% N/A
<b>1</b>	Is the department's computer equipment secured to prevent theft?	100%		
<b>2</b>	Is access to the computer system limited to authorized individuals?	100%		
<b>3</b>	Are passwords used?	100%		
<b>4</b>	Are there up-to-date written procedures that provide guidance on computer security, data integrity, and controls over information?	100%		
<b>5</b>	Are computer data backup and recovery procedures in place and being used?	100%		
<b>6</b>	Are all copies of software used by the College / Department appropriately licensed?	100%		
<b>7</b>	Are backed up files stored in a secure location?	100%		
<b>8</b>	Are virus protection programs used?	100%		
<b>9</b>	In case of an emergency, does a contingency plan exist that would guide the College / Department on how to continue operations?	100%		
<b>10</b>	Are user ID's promptly deleted upon termination of an employee?	50%	50%	

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

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

<b>Section 6: Purchasing Cards</b>		% Yes	% No	% N/A
1	Is there documentation needed for an employee to get a p-card?	100%		
2	Is there a document signed by the employee acknowledging receipt of the p-card and the responsibilities in it use?	100%		
3	Is there training for the new cardholder on the use of the p-card?	100%		
4	Is there refresher training on annual basis for current cardholders?		100%	
5	Is there criteria to determine a card holder's credit limit?	100%		
6	Is there documentation required to request a temporary increase in credit limit?	100%		
7	Is there documentation required to request a permanent increase in credit limit?	100%		
8	Do all cardholders reconcile their expense reports on time?	33%	67%	
9	Do the cardholders provide the proper receipts with expense reports?	100%		
10	Do cardholders review their monthly transactions for information correctness, completeness, and approve them each month?	100%		
11	Is there a documented process when cardholder doesn't complete his/her responsibilities on time?	50%	50%	
12	Do cardholder supervisors review expense reports and approve them each month?	100%		
13	Is there a documented process when the supervisor does not approve of an expenditure?	33%	67%	
14	Are all transactions charged to the correct GL account number prior to month end closing date?	50%	50%	
15	If a cardholder violates the p-card procedures and/or responsibilities, are there consequences other than revoking their p-card?	67%	33%	
16	If a cardholder violates the p-card procedures and/or responsibilities, is there a written procedure to revoke it?	33%	67%	
17	When a p-card holder leaves VSC employment, is there an exit process to obtain their p-card and all related receipts?	83%	17%	
18	Are exiting employee p-card accounts closed immediately?	100%		