VSC

OFFICE OF THE CHANCELLOR
575 STONE CUTTERS WAY
PO BOX 7
MONTPELIER VT 05601

MEMORANDUM

TO: VSC Audit Committee
Linda Milne, Chair
Lynn Dickinson, Vice Chair
J. Churchill Hindes
Karen Luneau
Tanya Morehouse and Jeff Kellar – State Auditor's Office
Martha O'Connor
Michael Pieciak

FROM: Steve Wisloski, CFO and VP of Finance & Administration

DATE: April 22, 2016

SUBJ: Audit Committee Meeting scheduled for April 27, 2016

The Audit Committee of the VSC Board of Trustees is scheduled to meet from **4:00 p.m. to 5:00 p.m.** in Room 101 at the Chancellor's Office in Montpelier; **please note the time change.**

The proposed agenda for this meeting is attached, and the primary purpose of the meeting is to review the fiscal year 2016 audit plan and schedule with VSC's auditors, O'Connor & Drew. Time permitting, we will also review the audit advisory comments from FY2015, and discuss the plan for the FY2016 internal audit. Please note that we would like to propose an additional Committee meeting in mid-summer to review the results of the FY2016 internal audit, and to discuss the progress of the O'Connor & Drew's audit. Finally, an amendment needs to be made to the Audit Committee charter to accommodate the current number of members.

Should you have any questions regarding the upcoming meeting or any other matter, or any requested additions to the agenda, please contact me at stephen.wisloski@vsc.edu or (802) 224-3022. Thank you.

Attachments:
1. Agenda
2. Meeting Materials

cc: VSC Board of Trustees, Council of Presidents and Business Affairs Council
Sam Winship, Vermont Department of Finance & Management
The Honorable Douglas Hoffer, Vermont State Auditor

Vermont State Colleges Board of Trustees
Audit Committee Meeting
April 27, 2016

AGENDA

1. Call to Order

2. Consent agenda — Page 3
    a. Minutes of November 18, 2015 meeting — Page 4
    b. Amendment to Audit Committee Charter — Page 7

3. Review FY2016 Audit Plan with O'Connor & Drew — Page 12

4. Review FY2015 Audit Advisory Comments — Page 15

5. Review Proposed FY2016 Internal Audit Plan — Page 24

6. Other business

7. Public comment

8. Adjourn

MEETING MATERIALS

1. Consent Agenda Items
    a. Minutes of November 18, 2015 meeting
    b. Proposed amendment to Audit Committee charter

2. O'Connor & Drew Agenda

3. FY2015 Management Letter and VSC Responses

4. Proposed Internal Audit Plan

Item 1:
Consent Agenda Items

Back to Agenda

Unapproved minutes of the Audit Committee meeting Wednesday, November 18, 2015

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

The Vermont State Colleges Board of Trustees Audit Committee met on November 18, 2015 at the Chancellor's Office in Montpelier.

Committee members present: Lynn Dickinson (Vice Chair), Church Hindes, Martha O'Connor, Karen Luneau, Linda Milne (Chair), Mike Pieciak

Other Trustees: Chris Macfarlane, Jim Masland

Guests: Kieth Goldie, Chris Stenmon, O'Connor & Drew

Presidents: Dave Wolk, Joyce Judy, Elaine Collins, Joe Bertolino, Dan Smith

From the Chancellor's Office:
Tricia Coates, Director of External & Governmental Affairs
Bill Reedy, General Counsel
Tom Robbins, Chief Financial Officer
Deb Robinson, Controller
Elaine Sopchak, Executive Assistant to the Chancellor
Jeb Spaulding, Chancellor

From the Colleges:
Scott Dikeman, CU Dean of Administration
Sheilah Evans, LSC Associate Dean of Administration
Loren Loomis Hubbell, LSC Dean of Administration
Barbara Martin, CCV Dean of Administration
Andy Myrick, VTC, VSCFF
Sandra Noyes, JSC, VSCSF
Sharron Scott, JSC Dean of Administration
Lit Tyler, VTC Dean of Administration
Beth Walsh, JSC, VSCUP

Chair Milne called the meeting to order at 1:05 p.m.

A. ITEMS FOR DISCUSSION AND ACTION

1. Minutes of the May 13, 2015 Meeting of the Audit Committee

Trustee Luneau moved and Trustee Hindes seconded the approval of the minutes. The minutes were approved unanimously.

2. Review and Approval of FY2015 Draft Audited Financial Statements and A-133 Report

CFO Robbins stated that overall the audit went smoothly, with no repeat comments. Net assets of the VSC decreased roughly $10M, due to unfunded OPEB liability, depreciation from a software contribution to VTC, and declining enrollment. Kieth Goldie and Chris Stenmon reviewed the draft audited financial statements with the Committee.

Chair Milne requested that at an upcoming meeting the Committee discuss healthcare costs and preparations for implementation of new aspects of the Affordable Care Act.

The FY2015 A-133 report had no material weaknesses or deficiencies. The manager's report contained only general recommendations. VSC internal controls are very strong.

The federal awards audit performed yielded two compliance findings of low importance. The first finding referred to third party governmental notification of graduation data; the third party utilized did not report data in a timely way. The second finding referred to one CCV student's data not being reported properly. Next year there will be new uniform guidance with a threshold of programs more than $750K.

Trustee Dickinson moved that the Committee enter executive session to discuss the evaluation of a public official. Trustee Luneau seconded. The Committee voted unanimously to enter executive session at 2:20 p.m.

The Committee exited executive session at 2:38 p.m. Trustee Dickinson moved and Trustee Hindes seconded to approve the resolution to approve the draft audited financial statements. Trustees Luneau and Pieciak were not present in the room. The remaining Committee quorum approved the resolution unanimously.

B. ITEMS FOR INFORMATION AND DISCUSSION

1. <u>Conducting an Audit Committee Executive Session: Guidelines and Questions</u>
2. <u>Fraud and the Responsibilities of the Government Audit Committee</u>

These items were not discussed by the Committee.

Trustee Dickinson moved and Trustee Hindes seconded adjournment. The meeting adjourned at 2:39 p.m.

Academic Dean Joe Mark stated that Professor Olson is a strong person speaking truth to power. Doing so not only is important to the institution but is another specific way in which she provides a great example to her students. He was pleased to be able to add her name to the plaque outside his office which honors all the Castleton recipients of the VSC Faculty Fellowships.

Chair Moore read the resolution approved by the Board in June 2011 naming Professor Olson as a recipient of a VSC Faculty Fellowship. He presented Professor Olson with a plaque containing a copy of the resolution and thanked her for all that she has done for Castleton.

Professor Olson thanked the Board for the award. She noted that a number of her students were in the audience. These students had received 25 hours of training in peer advocacy and provide educational training to their peers on topics such as harassment, sexual assault and relationship violence. In addition, they serve on call 24 hours a day, 7 days a week to connect students with resources. Professor Olson wanted to acknowledge their dedication and hard work.

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

The resolution Approval of FY2011 Audited Financial Statements and A-133 Report was moved by Trustee Milne and seconded by Trustee Winters.

Trustee Milne reported that the audit went fine and thanked all the financial staff at the colleges and the Chancellor's office for their assistance in getting the audit completed despite Tropical Storm Irene. Chair Moore stated that the auditors were very impressed with how all involved were able to get the job done under these circumstances. Trustee Milne added that they were also impressed with how prepared our staff were prior to Tropical Storm Irene.

The resolution was approved unanimously. A copy of the resolution is attached and made a part of the official minutes of the meeting.

4. Election of VSC Audit Committee Member

The resolution Election of VSC Audit Committee Member, which was hand-carried to the meeting, was moved by Trustee Milne and seconded by Trustee Pelletier.

Chair Moore noted that the Board had discussed this issue earlier this year. Trustee Milne stated that the election of a fifth member to the Audit Committee would allow the committee to meet more easily their quorum requirement. Trustee Jerman has volunteered to become a member of the VSC Audit Committee and the Nominating Committee of the Board has nominated him to become a member of that committee.

The resolution was approved unanimously. A copy of the resolution is attached and made a part of the official minutes of the meeting.

Vermont State Colleges Board of Trustees Audit Committee Charter

I. Purpose

The responsibilities of the Audit Committee (or ‘Committee’) of the Board of Trustees (or ‘Board’) of Vermont State Colleges Board of Trustees are to oversee:

i. the VSC’s systems of internal controls and other processes regarding finance, operations, accounting and legal compliance;
ii. the VSC’s auditing, accounting and financial reporting processes generally;
iii. the integrity of the VSC’s financial statements and other financial information provided by the VSC to the public and others;
iv. the VSC’s compliance with legal and regulatory requirements;
v. the independent auditor’s qualifications and independence;
vi. the performance of the VSC’s internal auditors and independent auditors;
vii. the codification of policies, procedures and practices related to the foregoing.

The Audit Committee also provides an open avenue of communication among the independent auditors, the internal auditors, financial and senior management, and the Board of Trustees.

II. Organization

The Audit Committee shall comprise five ~~four~~ trustees who shall satisfy the independence, financial literacy, and experience requirements, as defined by applicable rules and regulations.

Committee members shall be elected by the Board of Trustees at the annual organizational meeting on the recommendation of the Nominating Committee.

The Committee may form and delegate authority to subcommittees when appropriate.

The Chair of the Committee shall be appointed by the Chair of the Board from the elected members of the Committee.

III. Meetings

The Audit Committee shall meet a minimum of three times per year, or more frequently as circumstances require. The Committee shall require members of management, the financial department, the internal auditors if any, the independent auditors and others to attend meetings and to provide pertinent information, as necessary. To the extent permitted by Vermont open meeting requirements the Committee shall meet from time to time in separate executive sessions with management, the internal auditors, the independent auditors or others that it may designate to discuss any matters that the Committee (or any of these groups) believes should be discussed privately. The Board may adjust the number of Committee meetings required per year or the number of members on the Committee by majority vote at any warned regular or special meeting as long as the Board is satisfied that the fundamental purpose and functioning of the Committee will not be compromised.

IV. Responsibilities and Duties

The Committee shall consult with management but shall not delegate the responsibilities outlined herein. In performing its oversight responsibilities the Audit Committee shall:

With respect to the independent auditors:

1. The Board of Trustees shall have sole authority for approving the appointment of the independent auditors. However, the Committee shall have the authority and responsibility for the identification and evaluation of the independent auditors and submitting recommendations to the Board of Trustees regarding the terms, continuation, or termination of an engagement.
2. Approve all audit engagement fees.
3. Oversee the work of the independent auditors for the purpose of preparing or issuing an audit report or related work.
4. Oversee the resolution of disagreements between management and the independent auditors in the event that they arise.
5. Consider whether the independent auditor's performance of permissible non-audit services is compatible with auditor's independence and approve all non-audit engagements with the independent auditors in advance of any such engagement.
6. At least annually, obtain and review a report from the independent auditors describing (i) the independent auditors' internal quality control procedures; (ii) any material issues raised by the most recent internal quality control review, peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues.

With respect to financial information and reporting:

1. On a timely basis review and discuss with management the quarterly financial statements (including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations") and with both management and the independent auditors, the VSC's annual audited financial statements.
2. Discuss with the independent auditors matters required to be discussed by Statement on Auditing Standards No.114, The Auditor's Communication With Those Charged With Governance, as it may be amended, re-titled, or superseded from time to time.
3. Review with management and the independent auditor's financial accounting policies, significant reporting issues, systems of financial control and other matters related to the VSC's financial statements as required by applicable rules and regulations.

With respect to the internal auditors and internal controls:

1. Consider and review with the independent auditors and the internal auditors, if any, the adequacy of the VSC's internal control structure and systems and the procedures designed to ensure compliance with laws and regulations.
2. Review and advise on the selection or removal of the internal auditors, if any.

3. Periodically review any significant difficulties, disagreements with management, or scope restrictions encountered by the internal auditors in the course of their work.

With respect to other matters:

1. Report regularly to the Board of Trustees.
2. Discuss policies with respect to risk assessment and risk management, including the VSC's major financial and accounting risk exposures and the steps management has undertaken to control them.
3. Perform an annual self-assessment relative to the Audit Committee's purpose, duties and responsibilities outlined herein, including an assessment of the adequacy of this Charter.
4. Perform any other activities consistent with this Charter, the VSC's By-laws, and governing law as the Committee or the Board deems necessary or appropriate.

V. Resources

After consultation with the Chairman of the Board of Trustees, the Audit Committee shall have the authority to retain independent legal, accounting, and other consultants to advise the Committee with respect to any matter. The Committee may request any officer or employee of the VSC or the VSC's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Rev. 10/2011, 5/26/16

VERMONT STATE COLLEGES

BOARD OF TRUSTEES

RESOLUTION

VSC Audit Committee Business: Consent Agenda

WHEREAS, At its April 27, 2016 meeting the VSC Audit Committee discussed the business items outlined below; therefore, be it

RESOLVED, The Committee has voted to approve the items outlined below and recommends them to the full Board:

- Minutes of November 18, 2015 meeting
- Amendment to Audit Committee Charter

May 26, 2016

Item 2:
O’Connor & Drew Agenda

Back to Agenda

Memorandum

To: Vermont State Colleges – Audit Committee

From: O'Connor and Drew, P.C.

Date: April 27, 2016

Re: 2016 Audit Planning Meeting

Agenda:

- Introductions
- Discuss prior year audit results
- Current year audit approach
- Time line for audit planning and audit field work, including Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Audit (known as A-133 audit in previous years)
- Programs to audit for federal audit (known as the Single Audit)

  -Update on the changes
- 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
- Significant accounting transactions from July 1, 2015-Present or any anticipated transactions before year end that could materially effect the financial statements
- Other matters
- Update on prior year management letter comments and current status
- Executive session

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

Audit Planning:

- Chancellor's Office and Lyndon State College
  - Monday May 9th – Thursday May 12th
- Community College of Vermont and Johnson State College
  - Monday May 16th – Thursday May 19th
- Castleton State University and Vermont Technical College
  - Monday May 23rd -Thursday May 26st

Audit Field Work:

- Johnson State College and Lyndon State College
  - Monday August 8th – Wednesday August 10th
- Community College of Vermont and Castleton State University
  - Monday August 15th – Thursday August 18th
- Vermont Technical College and Chancellor's Office
  - Monday August 22nd – Thursday August 25th
  - Week of September 6th (audit of financial statements)

Item 3:
FY2015 Management Letter and Responses

Back to Agenda

VERMONT STATE COLLEGES

MANAGEMENT LETTER

JUNE 30, 2015

VERMONT STATE COLLEGES

Management Letter

June 30, 2015

CONTENTS

To the Board of Trustees
Vermont State Colleges
Montpelier, Vermont

Management of the Vermont State Colleges is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit of the financial statements of Vermont State Colleges (the "Colleges") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Colleges' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Colleges' internal control. Accordingly, we do not express an opinion on the effectiveness of the Colleges' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Colleges' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies, as defined above. However, we noted certain matters relating to the internal control environment of the Colleges and have included those comments and recommendations within this report.

This communication is intended solely for the information and use of management, the Board of Trustees and others within the Colleges and is not intended to be, and should not be, used by anyone other than these specified parties.

Certified Public Accountants
Braintree, Massachusetts

November 18, 2015

<u>Reporting Student Enrollment Status Changes to NSLDS (National Student Loan Data System)</u>

Current situation:

Colleges are required to report student enrollment status changes (i.e. withdrawals, graduations, fulltime to half-time, etc.) to the National Student Loan Data System (NSLDS) within 60 calendar days of the College's date of determination of the enrollment status change. During our financial aid testing, we noted students with status changes during the current fiscal year that were not reported to the NSLDS within the required timeframe. Of the sample tested, Lyndon State College (LSC) had three students with enrollment changes during the year that were not reported within the proper time period. Our financial aid testing results are as follows:

College	Student Name	College's Determination Date	Date Reported to Clearinghouse	Date Reported to NSLDS	# Days
LSC	Student A	1/6/2015	2/6/2015	6/23/2015	168
LSC	Student B	1/6/2015	2/6/2015	6/23/2015	168
LSC	Student C	1/15/2015	2/6/2015	6/23/2015	159

The College reports student enrollment status changes to the NSLDS through the National Student Clearinghouse (NSC), a third-party contractor, and is responsible for ensuring that student enrollment status changes are reported to the NSLDS in a timely and accurate manner. It is the responsibility of the Registrar to submit the enrollment status changes to NSC and to ensure that controls are in place to timely submit updates once the Registrar's office receives a student withdrawal form. The Registrar's office reported the student enrollment status to the NSC in a timely manner. However, for the three LSC students listed above, the student enrollment status data was not transmitted to NSLDS by the Clearinghouse within the required timeframe.

The Community College of Vermont (CCV) also had one student with an enrollment status change during the year that was not reported within the proper time period.

College	Student Name	College's Determination Date	Date Reported to Clearinghouse	Date Reported to NSLDS
CCV	Student D	12/19/2014	Unreported	Unreported

Once a student completes all program requirements, the student must complete an "Intent to Graduate" form in a timely manner to indicate to the College that the student has completed all program requirements and plans to graduate. The College then reports graduated students to the NSLDS (via the National Student Clearinghouse) in a large batch after graduation at the end of each semester. Despite completing all program requirements, this student did not fill out the "Intent to Graduate" in a timely manner and was not included in the batch reporting to the NSLDS. During Spring 2015, the College discovered that the student had completed all program requirements and recorded the student as "graduated" but did not report the enrollment status change to the NSLDS.

Reporting Student Enrollment Status Changes to NSLDS - Continued

Auditor's recommendation:

We recommend that management review its control procedures for reporting student financial aid data to the NSLDS to ensure proper controls are in place to ensure that all information is reported in a timely manner. Also, we recommend that VSC's IT department develop a query to identify students who have graduated outside of the large batches at the end of each semester.

Management's response:
CCV will continue to monitor all student files in order to satisfy the NSLDS reporting requirement. After review of current procedures, CCV will modify its processes so when a student completes the "Intent to Graduate Form" out of the large cycle, one of the steps in the processing checklist will be to manually report the student to the National Student Clearinghouse to insure timely reporting. CCV will also work with the VSC IT department to investigate developing a query to also help identify students that graduate outside of the large batches at the end of the semester.

LSC's Registrar reported the withdrawals in a timely fashion to the National Student Clearinghouse, as noted in the table above. It is regrettable that the Clearinghouse did not then report to the National Student Loan Data System in a timely fashion. We understand that Lyndon is ultimately responsible for the reporting to NSLDS, but believe that it is impractical for the College to monitor the controls of the National Student Clearinghouse nor are we likely to be effective in influencing their actions. The College has reported this finding to the Clearinghouse so they are aware of their reporting error. While we understand that 95% of colleges and universities use the Clearinghouse for NSDLS reporting, Lyndon is investigating alternative approaches to reporting given this finding, similar incidents at other schools, and the general unresponsiveness of the Clearinghouse.

Return of Title IV Funds

Current situation:

According to 34 CFR 668.22(a), when a recipient of Title IV grant or loan assistance withdraws from the College during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date.

For one student (Student E) at Castleton University (CU), the College used an incorrect withdrawal date to calculate the percentage of Title IV assistance that the student earned. The College recorded the withdrawal date as October 2, 2014 although the student's last day of attendance was October 3, 2014. This caused the student to return an additional $86.29 of Title IV assistance that the student earned. Also, the portion of the student's PLUS loan that was to be refunded to the College (originally $2,737.53 but corrected to $2,651.24) was not debited to the student's billing account as required. Here is a summary of the student's return of Title IV fund calculation:

Student E Return of Title IV Funds		
	As Originally	
	Calculated	As Corrected
Days Earned	39	40
Percentage of Title IV earned	37.9%	38.8%
Total Title IV assistance to be returned	$5,953.53	$5,867.24
Plus Loan assistance to be returned	$2,737.53	$2,651.24

Return of Title IV Funds - Continued

Auditor's recommendation:

We recommend that management review its control procedures for the return of Title IV funds to ensure proper controls are in place to accurately calculate and return the funds.

Management's response:
The R2T4 calculation sheet was initially prepared, and as part of our procedure, was reviewed by another staff member. The date of withdrawal was incorrect on the calculation sheet and was not noticed. Also, the PLUS amount to be returned was on the calculation sheet and when the other financial aid that needed to be returned was updated, the reduction to the PLUS loan was not noticed and therefore was not reduced or returned at that time.

We have reinforced the 2nd reviewer procedures to ensure dates; calculations and budgets are double checked and that all adjustments of aid are correct and the appropriate dollar amount of the financial aid refund is returned.

Year-End Accrued Expenses

Current situation:

During our year-end audit procedures, we recalculated accrued interest expense on all debt and noted that the interest accrual on the general ledger as of 6/30/15 for the 2010B Series Bond was under accrued by $325,835. Because of the material amount of the variance, an adjustment was recorded to the general ledger as of 6/30/15 as an increase in the year-end interest expense accrual and interest expense, resulting in a $325,835 increase in net loss.

Auditor's recommendation:

We recommend that management has a second review process of all year-end reconciliations and that any material variances noted on the reconciliations are investigated by a member of management.

Management's response: This error was found in audit preparation, but not subsequently corrected. A procedure will be set up to ensure a second review of all reconciliations and audit documents.

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Current situation:

The federal government has issued new Uniform Guidance for federal or federal flow through awards (OMB 2CRF2002CFR200). The Office of Management and Budget (OMB) has combined educational institutions, state and local governments, non-profits, and tribal governments into one document for dealing with federal awards. The new document is the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The final guidance was published in the Federal Register on December 26, 2013 and is effective for awards issued on or after December 26, 2014. The Uniform Guidance supersedes OMB Circulars A-21, A-50, A-87, A-89, A-102, A110, A-122, and A-133.

The purpose of the Uniform Guidance is to streamline and simplify the policy framework for grants and other types of agreements issued by the federal government. There are a multiple areas where the Uniform Guidance differs from previous federal regulations. These include, but are not limited to, administrative and clerical expenses, procurement requirements, direct charges of computing devices and indirect cost rates.

Audit requirements for federal awards will also change under the Uniform Guidance. The guidance raises the audit threshold and the program threshold to $750,000, the OMB also plans to consider ways to focus these audits on waste, fraud, and abuse as part of its annual reviews of the compliance supplement. The new audit requirements are effective for fiscal years beginning on or after December 26, 2014.

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards - Continued

Auditor's recommendation:
We recommend that management reviews and updates the internal policies of the Vermont State College system in regards to federal grants and awards, including pass-through grants, to comply with the new Uniform Guidance requirements. We also recommend that management institute's additional controls or a process to help ensure that all entities are adopting the new Uniform Guidance requirement consistently between all of the College's.

Management's response: The VSC has been reviewing all policies as they relate to the new

Uniform Guidance requirement for federal grants. A system- wide work team has been created and is working on understanding the new federal guidelines, developing policies and procedures to bring us into compliance. The Board will be asked to update the policies to comply with these guidelines. A blanket statement requiring compliance with UG for all grant related expenses will be proposed to the Board this Spring. More detailed policies will be written during FY17 and sent to the Board for review and approval. Uniform Guidance is a work in progress, and there have been changes in those rules related to the process of implementation during this year. The committee structure VSC has in place enables us to react to these changes and ensure that all colleges are aware of the changes. We will continue to work diligently toward full compliance in the midst of this changing environment.

Prior Year Comments:

Recommendation	*Status*
Reporting Student Financial Aid Payment Data to COD (Common Origination and Disbursement System)	Issue Resolved
Capital Asset Software	Issue Resolved
Procurement Cards	Issue Resolved

CONCLUSION

We would like to thank all of the management and staff who assisted during the course of our fieldwork. The staff was very helpful and exhibited a genuine effort and pride in their work, especially during this audit year where there was a lot of fluctuation in a number of key management positions at some of the College's. If we can be of any assistance in the implementation of any of the above-mentioned recommendations, please do not hesitate to call our office.

Item 4:
Proposed Internal Audit Plan

Back to Agenda

Vermont State Colleges Internal Audit Plan

FY2016

Table of Contents

Internal Control Self-Assessment 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[1]. A “no" response indicates a potential weakness in the specific internal control referred to in that question and should be considered an opportunity for improvement of processes and procedures. Action should be taken to resolve any weaknesses. The following are the elements of the Self-Assessment Questionnaire.

[1] The terms “department” and “college” may be interchangeable depending upon the context of the question.

General Controls

- Are there written rules, guidelines, policies, and/or procedures for all transactions and critical activities in this department?
- Does the College / Department have copies of all current VSC and college policies and procedures manuals?
- Do personnel have the knowledge and skills required for their jobs?
- Are department personnel cross trained for back-up of key personnel?
- Are period end financial reports reconciled to departmental supporting documents on a monthly basis or quarterly basis?
- Is a member of management reviewing and approving reconciliations in a timely manner?
- Does the College /Department comply with the requirements of VSC's record retention policy?
- 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.
- Does your College / Department have an operating plan that states goals to be accomplished and a timeline for completion of tasks?
- Are College / Department goals and tasks prioritized according to importance?
- 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?

Cash and Collections

- Does the College / Department have any written procedures for cash handling and related controls?
- Is a receipt immediately prepared upon collection of funds?
- Are checks restrictively endorsed with "For Deposit Only for XXXXX College" immediately upon receipt?
- Are all checks made payable to XXX College or XXX foundation?
- Do two different individuals verify all deposits prior to making the deposit?
- Does someone prepare the deposit other than the person collecting and recording receipts?
- Are collections held in a secure manner until deposited (i.e. in a locked location)?
- Are safe combinations restricted to a minimum number of employees?
- Are safe combinations changed after termination of an employee who previously had access?
- Are collections deposited intact (i.e. no expenditures made from collections)?
- Are deposits made in a timely manner (i.e. generally the same or next business day)?
- Does the College have procedures in place for the handling of cash receipts and related controls surrounding non-business income activities (i.e. athletic events, college clubs and organizations?
- Is there segregation of duties among opening mail, processing cash, and account reconciliation?

Cash Register/Touchnet Operations

- Are there written procedures for the operation of the cash registers/Touchnet?
- Does the cashier count the change fund before putting it in the drawer?
- Are register readings taken when a cashier's shift ends, when a relief cashier takes over, or other various times throughout the day?
- Does someone other than the cashier approve voids?
- Does an independent person reconcile cash register closing reports to actual receipts collected?
- Is the check suspension list, issued by the Business Office, referred to upon accepting checks?
- Is one cashier working from the drawer at any given time, or is there a way to distinguish between cashiers (i.e. ID's)?
- Is a record of over/shortages by the cashier maintained?
- Is there a ceiling on overages/shortages before corrective action is taken?
- Are the individuals who handle money trained in procedures to be followed in the event of a robbery or fire?

Petty Cash (if applicable)

- Are petty cash funds locked in a secure area?
- Is access to petty cash funds limited to the appropriate personnel?
- Does someone other than the fund custodian periodically count the fund?
- Are petty cash funds used only for appropriate purposes that are supported by receipts?

Purchasing/Accounts Payable

- Is there a formal organizational chart defining the responsibilities of preparing, recording, approving and follow up of all purchases and accounts payable functions?
- Are contracts and leases approved by all responsible parties involved (legal, finance, program) prior to the effective date of the contract?
- Do adequate procedures exist to ensure that goods for which payment is to be made have been verified and inspected by someone other than the individual approving payment/
- Do procedures exist ensuring accurate account distribution of all entries resulting from invoice processing?
- Are there checks in the processing procedures to prevent or detect duplicate payments?
- Is splitting orders to avoid higher levels of approval prohibited?
- Are disbursements approved for payment only by properly designated officials?
- Is the coding of charges in the accounting department competent to pass on the propriety of the distribution?

- Are all original transactions charged directly to the proper accounts at the time of disbursement?
- Are the reasons for expenditure transfers and journal entries clearly and accurately authorized and documented?

Purchasing Cards

- Is there documentation needed for an employee to get a p-card?
- Is there a document signed by the employee acknowledging receipt of the p-card and the responsibilities in it use?
- Is there training for the new cardholder on the use of the p-card?
- Is there refresher training on annual basis for current cardholders?
- Is there criteria to determine a card holder’s credit limit?
- Is there documentation required to request a temporary increase in credit limit?
- Is there documentation required to request a permanent increase in credit limit?
- When initiating a P-Card purchase, do procedures exist to ensure that the best combination of quality, total price, and delivery is obtained?
- Are procedures in place to prevent multiple purchases that are intended to circumvent bid or approval limitations or other controls?
- Do all cardholders reconcile their expense reports on time?
- Do the cardholders provide the proper receipts with expense reports?
- Do cardholders review their monthly transactions for information correctness, completeness, and approve them each month?
- Is there a documented process when cardholder doesn’t complete his/her responsibilities on time?
- Do cardholder supervisors review expense reports and approve them each month?
- Is there a documented process when the supervisor does not approve of an expenditure?
- Are all transactions charged to the correct GL account number prior to month end closing date?
- If a cardholder violates the p-card procedures and/or responsibilities, are there consequences other than revoking their p-card?
- If a cardholder violates the p-card procedures and/or responsibilities, is there a written procedure to revoke it?
- When a p-card holder leaves VSC employment, is there an exit process to obtain their p-card and all related receipts?
- Are exiting employee p-card accounts closed immediately?

Capital Assets and Inventoried Items

- Is capitalized equipment (over $5,000 per item) verified at least every two years and are changes in equipment noted and given to the Business Office to update?
- Is the Business Office notified of capitalized equipment that is scrapped, stolen, sold, traded in, loaned out, or transferred?
- Does the College / Department keep a separate internal record of equipment valued under the capitalization amount of $5,000? (Note: Federal Grant Requirements)
- Is the departmental record continuously updated to reflect new purchases and dispositions?
- Are procedures in place to minimize the risk of non-capitalized assets being lost or stolen (desks and other furniture and small equipment items) Ex: Assets tags and periodic inventories?

Conflict of Interest /Ethics

- Are all staff members aware of the Conflict of Interest policies as stated VSC Policies # 207 and #210 and how it impacts business and other contractual transactions?
- Does department management exhibit a positive ethical tone that encourages compliance with VSC polices?
- Have staff members made purchases with vendors where there is a personal interest or reward?
- Are personnel in your department informed about how to report ethical or fiscal misconduct concerns?

Computer Use and IT Controls

- Is the department's computer equipment secured to prevent theft?
- Is access to the computer system limited to authorized individuals?
- Are password configurations controlled by IT and required to be changed on a regular basis?
- Are there up-to-date written procedures that provide guidance on computer security, data integrity, and controls over information?
- Are computer data backup and recovery procedures in place and being used?
- Are all copies of software used by the College / Department appropriately licensed?
- Are backed up files stored in a secure location?
- Are virus protection programs used and updated on a regular basis?
- In case of an emergency, does a contingency plan exist that would guide the College / Department on how to continue operations?
- Is access to the colleges IT systems removed for terminated faculty, staff and students in a timely manner?

DESIGN MATRIX (Internal Controls)

Objectives	Information Required and Source(s)	Scope and Methodology	Limitations	What This Analysis Will Likely Say
What are the objectives the audit is trying to address?	**What information is needed to address the objective? Where will this information be obtained?**	**How will each objective be addressed?**	**What are the designs limitations and how will it affect the audit?**	**What are the expected results of the work?**
To help identify risk as well as eliminate considerations of risk that do not apply to your college.	Completion of Internal Control Self-Assessment. Questionnaire by applicable staff at each college. Prior year Audit reports.	Once identified, review potential weakness areas in depth. Business Office to highlight items that are done at the department level.	Differences in opinion. Different interpretations of the questions. Answering questions on the basis of what responder wants management to hear as opposed to what actually is in practice.	Review potential weakness areas and submit recommendation to improve internal controls and identify best practices to share with all of the colleges.

Internal Audit: Capital & Inventoried Assets

Objective:

The overall objectives of this audit is to determine whether the colleges:

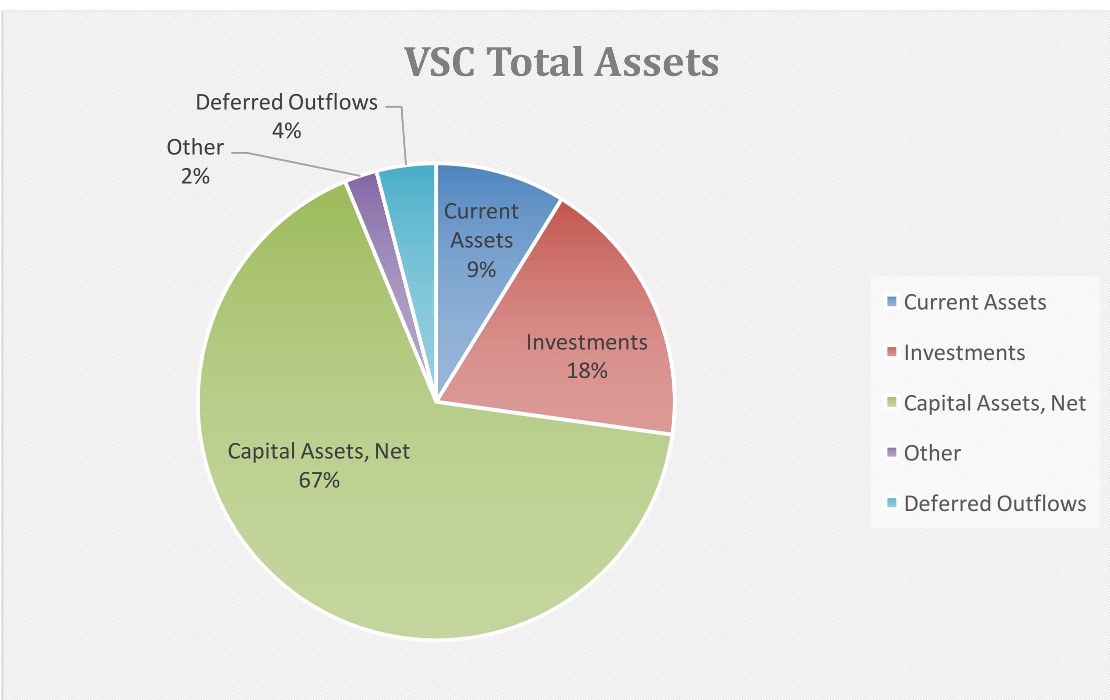
- **Managed and used resources in an efficient, effective, and economical manner.**
- **Administered funds in compliance with applicable laws, regulations, policies and procedures.**
- **Implemented internal controls to prevent or detect material errors and irregularities.**

The specific objective in this audit was to:

- **Assist management with the assessment of the adequacy of internal controls related to recording, valuing, reporting, and safeguarding the VSC inventory and fixed assets.**

Background:

Capital Assets is the largest and most significant asset on the Vermont State Colleges Statement of Net Position. With a net value of $181m at June 30, 2015, this asset represents 67% of the total assets and deferred outflows of the Vermont State College system.



The Vermont State Colleges have formal policies and procedures designed to ensure control and oversight related to recording, valuing, reporting and safeguarding inventory and that fixed assets are adequately accounted for. These policies and procedures were created to provide a mechanism to monitor, by a centralized fixed asset management system, the accountability, care and disposition of these assets. The following VSC policies have relevance to the internal audit plan:

Capital Budget – Policy 405
Asset Capitalization & Depreciation - Policy 415
Disposal of Equipment - Policy 422

The detailed policies are included as **ATTACHMENT A** to this document.

Relevant Financial Statement Assertions:

- Existence/occurrence: The long-lived assets exist at the balance sheet date. The focus is typically on additions during the year.
- Completeness: The long-lived assets account balances include all relevant transactions that have taken place during the period.
- Rights and obligations: The organization has ownership rights for the long-lived assets at the balance sheet date.
- Valuation or allocation: The recorded balances reflect the balances in accordance with generally accepted accounting principles (GAAP). Includes appropriate cost allocations and impairments.
- Presentation and disclosure: The long-lived assets balance is reflected on the balance sheet in the noncurrent section. The disclosures are adequate.

Controls:

Internal controls over capital assets and inventoried items alleviate two distinct risks. The first is physical in nature and relates to the asset getting lost, stolen or damaged. The second risk is financial in nature and relates to determination of cost basis, useful life, and depreciation. Both of these affect value as reported on the financial statements.

Physical Controls:

Goal – Verify existence, condition and custody.

Key physical controls include:

1. Is there a fixed assets ledger identifying the particular asset, date of purchase, model number, serial number, acquisition cost, expected life and assignment to any debt instrument?
2. Are the assets accounted for at least annually?

3. Is a physical inventory inspection of assets on a regular basis – at least annually - with regard to existence and possible valuation adjustments (especially with items of high exposure to damage or obsolescence like vehicles, equipment and technology)?
4. For assets that are used by multiple employees is there a check-in and check-out log?
5. Does management review periodically the insurance policies related to the particular assets that have exposure to damage and loss?
6. Are high risk small mobile and valuable objects locked or have some form of tracking device like a GPS installed? Examples include cell phones, tablets, laptops, pneumatic tools, medical equipment, electronic testing equipment etc.

Financial Controls:

Goal – Ensure that the capital assets value as reported on the balance sheet is accurate.

Key financial controls include:

1. Do the owners initiate and/or approve requests for fixed asset purchases?
2. Is the asset recorded on the books at the proper acquisition cost and is the proper depreciation method utilized?
3. Is there a policy in place that sets the requirements for capitalization of an asset, i.e. minimum dollar amount and life expectancy?
4. Is there a policy and a corresponding set of procedures to follow to determine the depreciation formula and the frequency of journal entries related to depreciation?
5. Are disposals of assets approved by management and then properly recorded to the books of record?
6. Are fixed asset ledgers reviewed regularly to confirm segregation of non-fixed asset purchases to the fixed assets account? The most common error is construction in process expenses being recorded to the fixed assets account.

Methodology:

- Utilize self-assessment questionnaires, audit narratives, and conduct interviews with personnel regarding their capital asset and inventoried items handling and recording.
- Receive a detailed listing of capital and inventoried items, CWIP, disposals and repairs and maintenance from each college.
- Select samples of capital and inventoried items and determine compliance regarding physical handling and financial recording policies, as well as adherence to funding regulations and policies.
- Provide guidance and written recommendations to management that will assist in the improvement of the internal control structure for capital assets and inventoried items procedures.

Procedures:

1. Discuss and document with the controller the procedures for the physical and financial controls of capital assets and inventoried items at the college.
2. From the colleague fixed asset report, select 5 items and perform the following audit procedures:
    a. Physically inspect and ensure assets are in usable condition and located at the stated premises.
    b. Ensure assets are properly tagged/identified.
    c. Examine the supporting documentation and agree description, acquisition cost and date, as well as proper categorization of asset and depreciation method used in colleague.
    d. Vouch ownership/title rights where applicable (i.e. vehicles).
    e. Determine the funding source and ensure compliance with any regulations, laws or policies (consider grants).
3. From the colleague disposals report, select 3 items and perform the following audit procedures:
    a. Ensure the proper procedures were completed (compliance with VSC Board Policy 422).
    b. Review the recording of the disposal in colleague for accuracy.
    c. Inquire about obsolete or scrapped capital assets and inventoried items.
4. From the CWIP account, select 1 current year project and perform the following audit procedures:
    a. Ensure the proper procedures for capital budgeting compliance with VSC Board Policy 405.
    b. Review the detail transactions for proper classification – capital or expense item?
    c. Check project funding status and compliance.
5. Review detail transactions of the current year repairs and maintenance accounts to ensure that all assets have been identified and properly recorded as fixed assets.
6. Select 5 inventory items on campus (3 of which should be technology items) and trace to the inventory listing to ensure inclusion, proper tagging, documented location, insurance coverage etc.
7. Inquire regarding possible impairment of capital assets.

Audit Results:

After review of initial findings from a site visit, a meeting may be set up with each College 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.

Audit Structure

Audit Team (name, role, title,)

- Sharron Scott, Audit Manager, Dean of Administration, Johnson State College
- Sheilah Evans, Audit Supervisor, Associate Dean of Administration, Lyndon State College
- Toby Stewart, Audit Senior, Controller, Johnson State College
- Rick Bourassa, Audit Staff, Staff Accountant, Vermont State Colleges

Internal Stakeholder(s)

- Board of Trustees
- Presidents
- Deans of Administration

Milestones

Activity	Estimated Completion Date
Completion of audit plan (i.e., design matrix approval)	4/27/16
Execution of audit plan	5/27/16
Message summary meeting	5/27/16
Report draft to reviewers	6/3/16
Report to management for comment	6/8/16
Comments back from management	6/15/16
Final report issuance	6/24/16
Vermont State College Audit Committee Review	7/20/16

Total Estimated Staff Hours:

120

DESIGN MATRIX (Capital Assets and Inventoried Items)

Objectives	**Information Required and Source(s)**	**Scope and Methodology**	**Limitations**	**What This Analysis Will Likely Say**
What are the objectives the audit is trying to address?	**What information is needed to address the objective? Where will this information be gotten?**	**How will each objective be addressed?**	**What are the designs limitations and how will it affect the audit?**	**What are the expected results of the work?**
To determine if the colleges have appropriate policies and procedures surrounding capital assets and inventoried items that comply with VSC Board Policy. The plan is to review the internal controls surrounding the capital asset and inventoried items process at each college and assess the extent that these controls are proper and working as intended.	Accounting policy and procedure documentation from each college, Colleague and other system manuals and any relevant flow charts relating to the process. The most recent 2016 VSC Self-Assessment of Internal Control for each college will be reviewed. We will obtain from other sources (OCD) A-133 college process flows and other documentation relevant to the capital assets and inventoried items process. Capital assets and inventoried items records will be reviewed.	We will select a sample of capital assets, disposals, and inventory items at each college. In selecting the sample, we will consider the amounts and source of funding as well as the level of oversight of the process. We may conduct interviews and walkthroughs with college staffs relevant to our audit objective. We will physically inspect a sample of capital assets and inventory items. To determine that the capital assets and inventoried items are properly accounted for, we will trace the capital assets to supporting documentation and to the subsidiary and general ledgers. We will analyze the reason for any significant differences. We will compare procedures across all colleges to determine any best practices.	Our sample will not allow us to make any statements about the population of capital assets and inventoried items as a whole.	The audit will be able to report whether or not the internal controls and procedures at each college are functioning properly as designed. The VSC will have current written documentation of the capital assets and inventoried items processes and procedures at the colleges and be able to identify and implement "best practices" to achieve more consistency across all VSC colleges. The newer controllers at the three campuses will have an opportunity to gain knowledge and training through this process.

ATTACHMENT A

Asset Capitalization & Depreciation - Policy 415
6/3/10

PURPOSE
The purpose of this policy is to require that all assets across the Vermont State Colleges System be capitalized in a manner to insure appropriate tracking and valuation, consistent with Governmental Accounting Standards Board (GASB) Statements #34/#35 that all assets except land be annually depreciated to reflect true declining value over time.

POLICY
The Vermont State Colleges will capitalize and per GASB #34/#35 account for as “depreciable assets” those items meeting the following criteria:

1) Software having at least original cost of $500,000 and 3 years useful life.
2) Vehicles, Equipment, and Furnishings having at least original cost of $5,000 and 4 years useful life.
3) Infrastructure having at least original cost of $25,000 and 20 years useful life, examples of such being water & sewer systems, ponds/dams, heating trench systems, electrical distribution systems, telephone/telecommunications systems, exterior lighting, and roads.
4) Land Improvements having at least original cost of $25,000 and 20 years useful life, examples being parking lots/walkways and outdoor athletic facilities.
5) Building Improvements having at least original cost of $25,000 and 20 years useful life, and which increase the value and/or extend the life of the facility.
6) Buildings having at least original cost of $100,000 and 40 years useful life.
7) Leasehold Improvements – Improvements to leased items which items if purchased would be considered a depreciable items under items 1-6 will be capitalized and depreciated using the straight-line method. The depreciation period will be the shorter of the useful life for the category or the term of the lease. If a lease contains a renewal clause this clause may be used in the calculation of the depreciable period of there is management certainty that the renewal will be executed.

Also included in the appropriate category above should be assets derived through capital leases, wherein the asset becomes owned by the VSC at conclusion of the lease.

Depreciation will be done annually by straight-line method, meaning depreciating each year an amount equal to original cost divided by the number years of useful life.

Land will be capitalized by the Vermont State Colleges, but per GASB #34/#35 will be accounted for as “non-depreciable assets”.

Statements of “depreciable” and “non-depreciable” assets will be included as prescribed in GASB-compliant financial statements required beginning with FY2002.

Recognizing the great difficulty in valuing and depreciating library holdings with individual item costs often less than $100, GASB #34/#35 allows institutional policy option to choose whether library holdings are (a) capitalized and thus depreciated, or (b) not capitalized and thus treated as expense items. Accordingly the VSC beginning FY2002 opts to not capitalize and depreciate library holdings, but instead expense library acquisitions similar to other low individual item costs like desks and chairs acquisitions.

Capital Budget – Policy 405
1/29/07

PURPOSE
The Board of Trustees provides for major maintenance of academic facilities, the repair and replacement of college facilities, including major equipment repair and replacement, and the construction of new buildings as warranted. In developing the annual capital budget to meet these responsibilities, the Board will consider both the availability of limited resources as well as the strategic and academic needs of the VSC.

STATEMENT OF POLICY
1. The Office of the Chancellor shall submit annually to the Board at the October meeting a capital budget plan for Vermont State Colleges for the upcoming year.
2. The plan shall provide for major repair, replacement and refurbishment of existing facilities as well as new facilities development as necessitated by college needs.
3. The plan shall not include funds for routine maintenance, repair and replacement. Unless otherwise determined by the Board, such expenses shall be paid for with operating funds.
4. The plan shall identify proposed expenditures for self-supporting activities such as housing and dining.
5. Capital expenditures for self-supporting activities shall be from funds derived from the self-supporting activities insofar as possible.
6. While prioritizing the capital budget the following will be considered:
   a. life and safety issues
   b. ADA and other compliance issues
   c. major maintenance
   d. new construction
7. Major maintenance and repair over $10,000 requires Chancellor approval. Major maintenance and repair over $50,000 requires Board approval.
8. Routine replacement and acquisitions of movable equipment and library materials shall not be proposed for funding in the capital plan.

Disposal of Equipment - Policy 422
1/29/07

PURPOSE
This policy is established to govern the disposal of surplus equipment when it is no longer required by the institution.

STATEMENT OF POLICY
Each college shall be responsible for the disposition of surplus equipment after it has become obsolete or useless for meeting the needs and purposes of the college. When this occurs, it shall be the responsibility of the President of the College to dispose of the surplus property;
1. The President shall have the authority to dispose of surplus equipment with an estimated market value of less than $5,000.
2. Sales of surplus equipment with an estimated market value of $5,000 or more shall be made on the basis of a public bid process.
3. Equipment purchased with Federal or State grants must be disposed of in accordance with the applicable regulations.
4. The Chancellor may adopt and update as necessary procedures for this policy.

PROCEDURE FOR REMOVAL AND DISPOSAL OF SURPLUS EQUIPMENT

1. All departments that determine they have surplus property shall inform the President in writing of the kind of equipment, quantity, location, condition, and if known, estimated value.
2. All surplus equipment will be stored appropriately until disposed of.
3. The President will determine the method by which the surplus equipment will be disposed in accordance with VSC policy and applicable laws.
4. Where appropriate a negotiated transfer of equipment shall be arranged between colleges in advance of offering items in competitive bids.
5. Other property found to be of no further use to the college will be sold under sealed bids to the highest bidder.
6. The proceeds from the sale of any surplus equipment shall be placed in the college's General Fund.
7. At the time the equipment is disposed of it to be written off of the colleges books.
8. Equipment purchased with Federal or State grants must be disposed of in accordance with the applicable regulations.
9. Exceptions to this procedure must be approved in writing by the President.