


MEMORANDUM

TO: VSC Audit Committee
Linda Milne, Chair
Lynn Dickinson, Vice Chair
J. Churchill Hindes
Karen Luneau
Martha O'Connor
Michael Pieciak

FROM: Steve Wisloski, CFO and VP of Finance & Administration
Sheilah Evans, System Controller & Senior Director of Financial Operations

DATE: August 11, 2016

SUBJ: Audit Committee Meeting scheduled for August 24, 2016



The Audit Committee of the VSC Board of Trustees is scheduled to meet from 2:30-3:30 in Room 101 at the Chancellor's Office in Montpelier.

The agenda and meeting materials are identical to what was sent to the Committee for the July 18th meeting, which was not held due to lack of quorum. The primary purposes of the meeting are to review the internal audit and hear an update on the single audit.

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
David Beatty, Vermont Department of Finance & Management
The Honorable Douglas Hoffer, Vermont State Auditor

**Vermont State Colleges
Board of Trustees
Audit Committee Meeting**

**July 18, 2016 at 1 p.m. via Conference Call
AGENDA**

Dial-in number: 1-800-747-5150

Access code: 9979818

1. Call to order
2. Approval of minutes of the April 27, 2016 meeting
3. Discuss FY2016 internal audit report– capital assets and inventoried items
4. Discuss FY2016 O'Connor & Drew audit update
5. Other business
6. Public comment
7. Adjourn

MEETING MATERIALS

1. Consent Agenda Items
 - a. [Minutes of April 27, 2016 meeting](#)
2. [FY2016 VSC Internal Audit Report](#)

Item 1: Consent Agenda Items

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VSC Audit Committee Meeting
April 27, 2016
UNAPPROVED MINUTES

Unapproved minutes of the Audit Committee meeting Wednesday, April 27, 2016

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 April 27, 2016 at the Chancellor's Office in Montpelier.

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

Absent: Michael Pieciak

Other trustees: Kraig Hannum, Ben Simone

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

Chancellor's Office Staff: Rick Bourassa, Senior Staff Accountant
Tricia Coates, Director of External & Governmental Affairs
Bill Reedy, General Counsel
Deb Robinson, Controller
Elaine Sopchak, Executive Assistant to the Chancellor
Jeb Spaulding, Chancellor
Sophie Zdatny, Associate General Counsel
Yasmine Ziesler, Chief Academic Officer

From the Colleges: Scott Dikeman, Dean of Administration, Castleton University
Sheilah Evans, Assistant Controller, Johnson State College
Barb Flathers, Assistant to the Dean of Students, Johnson State College
Loren Loomis Hubbell, Dean of Administration, Lyndon State College
Barbara Martin, Dean of Administration, Community College of Vermont
Phil Petty, Academic Dean, Vermont Technical College
Toby Stewart, Controller, Johnson State College
Lit Tyler, Dean of Administration, Vermont Technical College

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

Chair Milne called the meeting to order at 4:05 p.m.

VSC Audit Committee Meeting
April 27, 2016
UNAPPROVED MINUTES

Trustee Dickinson moved and Trustee Luneau seconded the approval of the minutes of the November 18, 2015 meeting. Chair Milne requested a correction to the minutes as follows:

“Chair Milne requested that ~~the excise tax aspect of the Affordable Care Act be raised as a discussion item at an upcoming Finance and Facilities Committee meeting. the Committee discuss healthcare costs and preparations for implementation of new aspects of the Affordable Care Act.~~”

Trustee Luneau moved and Trustee Dickinson seconded the approval of the minutes as amended. The minutes were approved unanimously.

Chair Milne opened discussion of amending the Audit Committee charter to increase the membership from four to five members. Trustee Dickinson moved and Trustee Luneau seconded recommending the resolution to the full Board at its May meeting. The resolution was approved unanimously.

Mr. Stenmon and Mr. Goldie reviewed the FY2016 audit plan.

Ms. Robinson updated the Committee on items reported in the management letter.

Ms. Evans reviewed the internal audit process with the Committee.

CFO Wisloski suggested a third Audit Committee meeting be held at the time of the July Board meeting.

Chair Milne adjourned the meeting at 4:51 p.m.

Item 2:
FY2016 VSC Internal Audit Report

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Vermont State Colleges

FY 2016 Internal Audit Summary Report

Capital Assets and Inventoried Items

Report Date: May 31, 2016



Capital Assets and Inventoried Items Audit

DETAIL OBSERVATIONS AND ACTION PLAN

BACKGROUND

The Vermont State Colleges (VSC), comprised of the five colleges and the Office of the Chancellor, have significant capital needs to maintain and enhance the vast number of buildings, infrastructure and other property, plant and equipment throughout its locations across the state. As such, capital assets is the largest and most significant asset on the Vermont State College's Statement of Net Position. With a net value of \$181 million at June 30, 2015, these assets represent 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 capital assets and inventory. 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

Funding is largely provided through four major sources: the state capital appropriation, VSC capital monies, grant or donor funds, and general operating dollars. For FY16, the colleges submitted a multi-level capital budget plan to the State of Vermont ranging from \$1.8 to \$4 million for state capital appropriation dollars and were granted a total of \$2,155,000. Additionally, the Vermont State Colleges approved \$1 million in capital funding to the colleges. Capital expenditures for FY16 through the date of this report total \$4.5 million. This internal audit is intended to evaluate the internal controls associated with these transactions.

SCOPE

The scope of the audit includes:

- A review of the capital assets and inventoried items processes and internal controls at the five colleges and the Office of the Chancellor.
- A compliance review of transactions for the eleven month period ended May 31, 2016.

Capital Assets and Inventoried Items Audit

DETAIL OBSERVATIONS AND ACTION PLAN

OBJECTIVES

- To determine if the internal controls surrounding the capital assets and inventoried items processes at each college are adequate and to assess the extent to which these controls are properly designed and working as intended.
- To determine if the colleges have appropriate policies and procedures surrounding capital assets and inventoried items.
- To determine whether the colleges administered funds in compliance with applicable laws, regulations, policies and procedures.

METHODOLOGY

To address our objectives we reviewed industry rules and regulations, best practices and related internal controls regarding capital assets and inventoried items. We reviewed the relevant VSC policies and procedures for capital assets and inventoried items. Additionally, we conducted an interview with the Controllers and/or Deans of Administration to complete a Controls Questionnaire specific to the physical and financial controls surrounding capital assets and inventoried items. We made inquiry with management regarding fraudulent activity and impairment of capital assets.

As part of our objectives, we reviewed the capital assets and inventoried items processes and related internal controls for the college. We evaluated these controls and then identified key internal controls by comparing these internal controls to the transactions examined. The internal controls we evaluated related to (1) written procedures, ((2) segregation of duties and procedures, (3) physical and financial controls, and; (4) management review and oversight.

We discussed with accounting staff at the colleges and the Office of the Chancellor their processes and existing internal controls around capital assets and inventoried items accounting .To assist with our assessment, we examined the colleges' written procedures (if available) and the recent 2016 internal control self-assessments, made observations while at the colleges and the Office of the Chancellor, and reviewed original documents in order to analyze the design of the colleges' capital assets and inventoried items internal controls and processing of transactions.

For each of the colleges and the Office of the Chancellor, we examined:

1. Five capital asset additions from 2016 (or 2015 when needed to obtain a full sample of 5 items) to determine if they had been processed in accordance with VSC Board Policy 415 & 405. We performed a physical inspection of the assets and vouched ownership/title.
2. The detailed report of repairs and maintenance object codes within the general ledger that are not associated with capital assets to determine that assets have been identified and properly

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recorded as capital assets in the general ledger. We viewed supporting documentation for five transactions greater than the \$5,000 threshold for capitalization.

3. One current year project in the CWIP account to ensure compliance with VSC Board Policy 405, proper classification, and project funding status and compliance.
4. Three capital asset disposals from 2016 (or 2015 when needed to obtain a full sample of 3 items) to determine if they had been processed in accordance with VSC Board Policy 422.
5. Five inventory items on campus (3 of which were technology items) and traced to the inventory listing to ensure inclusion, proper tagging, documented location, insurance coverage and proper safeguarding.

The audit evaluated the adequacy of controls and processes to achieve key business objectives as it related to the recording, valuing, reporting and safeguarding of VSC capital assets and inventoried items.

RESULTS

1. Physical and Financial Controls

- A. At 5 of 6 audit locations, written procedures for capital assets and inventoried items were available.
- B. At 6 of 6 audit locations, management was not aware of fraudulent activity involving capital assets and inventoried items.
- C. At 5 of 6 audit locations, there were no impaired assets to be removed from the general ledger before fiscal year-end.
- D. At 3 of 6 audit locations, an annual physical inventory audit is performed.
- E. At 6 of 6 audit locations, capitalized asset documentation is available, but should contain more information as a best practice.
- F. At 6 of 6 audit locations, a check-in and check-out log is utilized for IT items, and good security and tracking measures are in place.
- G. At 6 of 6 audit locations, the insurance policies are reviewed periodically; however, at 4 of 6 locations, photographs are not kept.
- H. At 6 of 6 audit locations, VSC policy is being followed for capitalization and depreciation requirements.
- I. At 6 of 6 audit locations, assets were properly recorded as capital or expense.
- J. At 6 of 6 audit locations, there was non-compliance with VSC Board Policy 422.
- K. At 2 of 6 audit locations, there exists an asset ID tagging system for non-IT items.

2. Test Sampling

- A. In 2 of 30 test samples, assets were assigned incorrect acquisition dates.
- B. In 1 of 30 test samples, a quotation document, not the invoice, was used as supporting documentation.
- C. In 1 of 30 test samples, an asset's location was not documented.
- D. In 18 of 18 test samples, the president did not select the method of capital asset disposal nor approve the disposal.

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DETAIL OBSERVATIONS AND ACTION PLAN

- E. In 9 of 18 test samples, a public bid process was not utilized for disposal of assets.
- F. In 3 of 18 test samples, no bill of sale was available for the sale of capital assets.
- G. In 13 of 30 test samples, non-IT items were not tagged or tracked via an ID system.

RECOMMENDATION OF BEST PRACTICES FOR REVIEW AND IMPLEMENTATION

Capital Assets and Inventoried Items:

1. Review and update VSC Disposal of Equipment Policy 422 and related procedures to better reflect a practical business policy and procedure and to simulate industry best practices.
2. Develop a system-wide approach to an inventory tracking system for capitalized assets, IT items and other specified inventoried items.
3. Develop a system-wide policy and procedure for physical inventory audits on a continuous basis.
4. Provide continued professional development and training for newer members of the Finance team on capitalization accounting rules, standards and best practices.
5. Enter additional information in the Colleague Fixed Asset record, including: vendor name, voucher number, asset ID number, item serial number and a grant identifier when necessary. Consider using an ImageNow property field to identify capital assets at the voucher level.
6. Maintain a file of images of each room on each campus and at the Office of the Chancellor for insurance purposes.