

MEMORANDUM

TO: VSC Audit Committee
Lynn Dickinson, Vice Chair
J. Churchill Hindes
Karen Luneau
Linda Milne, Chair
Christopher Macfarlane
Michael Pieciak
Jeff Kellar – State Auditor’s Office

FROM: Steve Wisloski, CFO
Sheilah M. Evans, System Controller/Senior Director of Financial Operations
Sophie Zdatny, General Counsel

DATE: April 30, 2018

SUBJECT: Audit Committee Meeting scheduled for April 30, 2018

The Audit Committee of the VSC Board of Trustees will meet from 1:00 pm - 3:00 pm in Conference Room 101 at the Office of the Chancellor, Montpelier, VT.

If you have any questions, I can be reached at (802) 224-3038.

Thank you.

cc: Other Trustees
Council of Presidents
Business Affairs Council
Sam Winship, Dept. of Finance and Management
Douglas Hoffer, State Auditor

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

**April 30, 2018
1:00 pm at the Office of the Chancellor**

AGENDA

A. ITEMS FOR DISCUSSION AND ACTION

1. Approval of the Minutes of the February 12, 2018 Meeting of the Audit Committee

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Discuss FY18 Audit Plan with O'Connor & Drew
2. Review FY18 Internal Audit Summary Report
3. Other Business
4. Public Comment
5. Adjourn

MEETING MATERIALS

1. Minutes of the February 12, 2018 Meeting
2. Agenda for Discussion with External Auditors
3. FY18 Internal Audit Summary Report

Item A1:

Approval of February 12, 2018 Meeting Minutes

UNAPPROVED Minutes of the VSC Board of Trustees Audit Committee held Monday, February 12, 2018 at the Office of the Chancellor in Montpelier, VT

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 February 12, 2018, at the Office of the Chancellor in Montpelier, VT.

Committee members present: Linda Milne (Chair), Lynn Dickinson (Vice Chair), Karen Luneau, Mike Pieciak, Church Hinds

Other Trustees: Chris Macfarlane
Bill Lippert

Chancellor's Office Staff: Sheilah Evans, System Controller & Senior Director of Financial Operations
Jeb Spaulding, Chancellor
Todd Daloz, Associate General Counsel
Steve Wisloski, Chief Financial Officer
Harriet Johnson, Executive Assistant

From the Colleges: Scott Dikeman, Dean of Administration, Castleton University
Laura Jakubowski, Chief Budget & Finance Officer, Castleton University
Barbara Martin, Dean of Administration, Community College of Vermont
Sharron Scott, Dean of Administration, Johnson State College
Lit Tyler, Dean of Administration, Vermont Technical College
Maurice Ouimet, Dean of Enrollment, Castleton University
Toby Stewart, Controller, Johnson State and Lyndon State College
Beth Walsh, President, VSCUP
Morna Flaum, VP of VSCFF

1. Chair Milne called the meeting to order at 1:38 p.m.
2. Approval of the Minutes of the October 25, 2017 Meeting of the Audit Committee

Trustee Dickinson moved and Trustee Pieciak seconded the approval of the minutes. The minutes were approved unanimously.

ITEMS FOR INFORMATION AND DISCUSSION

1. Discuss FY2018 Internal Audit Plan Proposal

Sheilah Evans, System Controller & Senior Director of Financial Operations, presented an overview of the internals questionnaire and spoke about changes of the Audit team. The team solicited three questionnaires per college/university and asked them to complete the questionnaire this year. These changes provided a more in depth of information regarding internal controls and areas at risk within the institutions. The Internal Audit Committee is recommending that Cash Receipts and Travel Expenses be the scope for the FY18 Internal Audit.

2. Review Progress on FY17 Internal Audit Recommendations

Sheilah Evans, System Controller & Senior Director of Financial Operations discussed the recommendation from last years internal audit, presenting the list and discussing how these recommendations are being implemented. These recommendation will continue to be monitored.

Trustee Hindes acknowledged the work of the team and thanked them for being thorough and professional.

3. Comments from the public

There was no public comment.

Chair Milne adjourned the meeting at 2:05 p.m.

Item B1:

Agenda for Discussion with External Auditors

Memorandum



To: Vermont State Colleges – Audit Committee
From: O'Connor and Drew, P.C.
Date: April 30, 2018
Re: 2018 Audit Planning Meeting

Agenda:

- Introductions
- Discuss prior year audit results
- Current year audit approach
- Time line for audit planning and audit field work, including Single Audit of Federal Grants.
- Programs to audit for federal audit (known as the Single 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 - GASB 75 OPEB Discussion
- Significant accounting transactions from July 1, 2017 - Present or any anticipated transactions before year end that could materially effect the financial statements
- Other matters
- Executive session

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

- Lyndon State College and Community College of Vermont
 - Monday May 14th – Thursday May 17th
- Johnson State College and Castleton University
 - Monday May 21st – Thursday May 24th
- Chancellors Office and Vermont Technical College
 - Tuesday May 29th – Friday June 1st

Audit Field Work:

- Chancellors Office for all Colleges
 - Monday August 20th – Friday August 31st (2 Weeks)

Item B2:

FY18 Internal Audit Summary Report

Vermont State Colleges

Internal Audit Summary Report

FY2018



BACKGROUND

The Vermont State College system is comprised of four colleges, one university and the Office of the Chancellor. Each of the colleges and the university operate as a single business unit in that many administrative functions exist at each location. As such, the importance of an audit of internal controls is vital to the overall risk assessment of the organization.

The Vermont State Colleges have formal policies and procedures designed to ensure control and oversight related to recording, valuing, reporting and safeguarding of the organization's assets, as well as the effectiveness of internal controls and risk management. These policies and procedures were created to provide a mechanism to ensure that internal controls and resource use are consistent with laws, regulations and applicable external policies. The following VSC policies have relevance to this internal audit plan.

Driver Safety Policy/Program - Policy 419

Travel Policy – Policy 424

Hospitality Policy - Policy 425

Cash is the most liquid of assets and is susceptible to loss if not properly controlled. To ensure protection, accurate processing and reporting, internal control practices are developed for segregation of duties, appropriate authorizations and approvals, securing assets and reconciling. One of the most important ways to protect cash is to separate cash handling duties among different people. With proper separation of duties, no single person has control over the entire cash process. Cash accountability ensures that cash is accounted for, properly documented and secured, and traceable to specific cash handlers. Security of assets includes promoting practices that provide a secure work environment that physically protects resources and those that handle cash. Reconciliation activities confirm that transactions are recorded correctly with routine checks and balances.

Travel is required for an array of business needs, including conferences, trainings, meetings, site visits, etc. Due to the fact that travel expenses are subject to various rules and regulatory bodies, such as VSC policy, IRS regulations and Uniform Guidance for grants and contracts, a solid framework for internal controls related to travel should be in place and include: clearly written policy and procedures, requirement for submission of actual receipts and invoices, inclusion of the business justification, a thorough review and approval process prior to reimbursement, and compliance with the 60-day IRS rule for travel reimbursements.

SCOPE

The scope of the audit includes a risk assessment of management controls as they relate to Cash Receipts and Travel Expenses in three functional areas – Athletics, Conferences and Events, and Institutional Advancement*:

1. Are cash collections adequately safeguarded, deposited in a timely manner, and accurately recorded in the financial records?
2. Are travel expenses handled in accordance with the VSC Travel Policies, IRS regulations, and Uniform Guidance for grants and contracts?

*The three functional areas under review do not exist at each of our institutions. As such, please note that our scope is limited at some locations, and in our test samples, there may be fewer than the total number detailed in the internal audit plan. Additionally, the Office of the Chancellor was not in scope for this annual review due to the lack of volume or non-existence in these three functional areas.

OBJECTIVES

The overall objectives of an internal audit are 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 is to:

- ☐ Assist management with the assessment of the adequacy of internal controls related to cash receipts and travel expenses.

METHODOLOGY

To address our objectives, we reviewed industry rules and regulations, best practices and related internal controls regarding cash receipts and travel expenses. We reviewed the relevant VSC policies and procedures. Additionally, we conducted interviews with the Controllers and/or Deans of Administration, Athletic Directors, Conference and Events Directors, and the Institutional Advancement Directors to complete a Controls Questionnaire specific to the internal controls and procedures within their functional areas that were relevant to this internal audit.

To assist with our assessment, we examined the colleges' written procedures (if available) and the FY18 internal control self-assessments, made observations while at the colleges, and reviewed original documents in order to analyze the design of the colleges' processes, procedures and internal controls.

For each of the colleges and university, we performed/examined:

1. Cash receipts process documents/manuals for existence, adequacy and relevance.
2. Twelve cash receipts (four from each functional area under scope) for proper inclusion on the daily check log, adequate segregation of duties, security of asset, timeliness of deposit, proper g/l coding, inclusion on the bank statement, and appropriate reconciliation and review throughout the entire process.
3. Twelve travel expense reimbursements for timeliness of submission, inclusion of business purpose/justification, pre-authorized travel and supervisor approvals, allowable expenses, proper receipts, and evidence of most economical choice of hotels, car rentals, etc.
4. Three travel advances for supervisor approval, both in advance and subsequent to travel, date of issuance and reconciliation within policy parameters, return of excess funds where applicable, and all required receipts submitted and on file.
5. Two drivers from the fleet travel log evidencing background check completion, driver training certification, and all required information included on the fleet travel log.
6. Grant requirements were considered for any applicable grant expenditure that was derived from the above samples.

The audit evaluated the adequacy of controls and processes to achieve key business objectives as it related to cash receipts and travel expenses.

RESULTS

1. Internal Controls

- A. At 5 of 5 audit locations, written rules, guidelines, policies/procedures for the cash receipt function exist and are adequate and relevant.
- B. At 4 of 5 audit locations, there is proper segregation of duties in the cash receipts process.
- C. At 5 of 5 audit locations, cash receipts are deposited regularly and funds are adequately secured.
- D. At 3 of 5 locations, appropriate cash receipt documentation is maintained, and reconciliations are accurately completed and approved.
- E. At 4 of 5 audit locations, travel advances are approved by supervisors both before and after travel.
- F. At 5 of 5 audit locations, staff are properly trained on cash receipts and travel expense policies and procedures.
- G. At 3 of 5 audit locations, there is adherence to the travel policy regarding authorization, timeliness, supporting documentation (including receipts and business justification), and reimbursement for only allowable expenses.
- H. At 4 of 5 audit locations, travel plans are arranged to obtain the most favorable/economical rates.
- I. At 4 of 5 audit locations, there are good controls related to the driver safety policy and program.

2. Test Sampling

- A. In 43 of 51 (84%) test samples of cash receipts, there existed proper inclusion on the daily check log, adequate segregation of duties, security of the asset, timeliness of deposit, proper g/l coding, inclusion on the bank statement, and appropriate reconciliation and review throughout the process.
- B. In 48 of 60 (80%) test samples of travel expense reimbursements, there existed proper timeliness of submission, inclusion of business purpose/justification, pre-authorized travel and supervisor approvals, allowable expenses, proper receipts, and evidence of most economical choice for hotels, car rentals, etc.
- C. In 4 of 13 (31%) test samples of travel advances, there was full adherence to the travel advance requirements as set forth in the VSC policy. Timeliness of reconciliations was the main factor of non-compliance in this area of testing.
- D. In 6 of 8 (75%) test samples of fleet drivers reviewed, the background checks and driver safety certificates were on file, and fleet vehicle logs were adequately maintained.

RECOMMENDATION OF BEST PRACTICES FOR REVIEW AND IMPLEMENTATION

Cash Receipts and Travel Expenses:

- 1. Develop a written uniform cash receipt process based on best practices and implement across all institutions.
- 2. Review, revise and update the VSC Travel policy to reflect changes in internal process/procedures and regulatory compliance.
- 3. Conduct a thorough review of the travel advance process and implement best practices to ensure full compliance with VSC policy.
- 4. Create a uniform Fleet Log and process for driver safety program as applicable.
- 5. Provide a convenient tool for Budget Mangers to access their budget reports to ensure reconciliation of cash receipts and proper g/l coding at the department level.
- 6. Establish a preferred vendors list for travel to obtain most favorable rates on car rentals, hotels, air flights, etc.