

MEMORANDUM

TO: VSC Audit Committee
Lynn Dickinson, Vice Chair
Karen Luneau
Linda Milne, Chair
Michael Pieciak
David Silverman
Jeff Kellar – State Auditor’s Office

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

DATE: April 29, 2019

SUBJECT: Audit Committee Meeting scheduled for April 29, 2019

The Audit Committee of the VSC Board of Trustees will meet from 1:00 pm - 2:00 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 29, 2019
1:00 pm at the Office of the Chancellor**

AGENDA

A. ITEMS FOR DISCUSSION AND ACTION

1. Approval of the Minutes of the February 11, 2019 Meeting of the Audit Committee

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Discuss FY19 Audit Plan with O'Connor & Drew
2. Review FY19 Internal Audit Summary Report
3. Other Business
4. Public Comment
5. Adjourn

MEETING MATERIALS

1. Minutes of the February 11, 2019 Meeting
2. Agenda for Discussion with External Auditors
3. FY19 Internal Audit Summary Report

A. Items for Discussion and Action

Item 1:

Minutes of the February 11, 2019 Meeting

**UNAPPROVED Minutes of the VSC Board of Trustees Audit Committee held Monday,
February 11, 2019 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 11, 2019, at the Office of the Chancellor in Montpelier, VT.

Committee members present: Linda Milne (Chair), Lynn Dickinson (Vice Chair), Karen Luneau (via phone), Mike Pieciak (by phone)

Absent: Chris Macfarlane

Other Trustees: Church Hindes

Presidents: Elaine Collins, Pat Moulton, Joyce Judy, Karen Scolforo

Chancellor's Office Staff: Tricia Coates, Director of External and Governmental Affairs
Todd Daloz, Associate General Counsel
Sheilah Evans, System Controller & Senior Director of Financial Operations
Jen Porrier, Administrative Director
Jeb Spaulding, Chancellor
Steve Wisloski, Chief Financial Officer
Sophie Zdatny General Counsel
Yasmine Ziesler, Chief Academic Advisor

From the Colleges: Laura Jakubowski, Chief Budget & Finance Officer, Castleton University
Maurice Ouimet, Dean of Enrollment, Castleton University
Andy Pallito, Dean of Administration, Community College of Vermont
Sharron Scott, Dean of Administration, Johnson State College
Lit Tyler, Dean of Administration, Vermont Technical College

From the public: Lola Duffort, Reporter, VT Digger

Chair Milne called the meeting to order at 1:06 p.m.

ITEMS FOR DISCUSSION AND ACTION

1. Approval of the Minutes of the October 24, 2018 Meeting of the Audit Committee

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

ITEMS FOR INFORMATION AND DISCUSSION

1. Review FY2019 Internal Audit Plan Proposal

Sheilah Evans, System Controller and Senior Director of Financial Operation, discussed and described the internal audit process. The FY2019 internal audit will focus on the Purchase Card (PCard) program. Half of all VSCS full time employees have a PCard and over \$8 million are charged to them annually.

2. Review Summary of Whistleblower reports

Chair Milne shared the Whistleblower reports with the committee. General Counsel Sophie Zdatny briefly discussed the process of the Ethicspoint reporting system/hotline.

Chair Milne requests that review of whistleblower reports be an annual agenda item.

3. Discuss Disaster Recovery Planning

Chair Milne shared her thoughts about implementing a disaster recovery plan and response. Ms. Evans explained the three general categories of a disaster recovery plan – emergency response plan, which each college has in place, IT infrastructure and response plan, and business continuity plan. The IT team continues to refine their plan as technology evolves and it is currently working with a student class to document the plan. Chair Milne asked that the full board receive and update at the June meeting.

4. Public Comment

There was no public comment.

5. Adjourn

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

UNAPPROVED

B. Items for Information and Discussion

Item 2:

Agenda for the Discussion with External Auditors

Memorandum



To: Vermont State Colleges – Audit Committee
From: O'Connor and Drew, P.C.
Date: April 29, 2019
Re: 2019 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
- Significant accounting transactions from July 1, 2018 - 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:

- For all Colleges (In-Office)
 - Week of May 13th (Monday - Friday)
- Community College of Vermont and Castleton University
 - Monday May 20th – Tuesday May 21st
- Northern Vermont University and Vermont Technical College
 - Wednesday May 22nd – Thursday May 23rd
- Chancellors Office
 - Tuesday May 28th – Friday May 31st

Audit Field Work:

- Chancellors Office for all Colleges
 - Monday August 19th – Friday August 30th (2 Weeks)

B. Items for Information and Discussion

Item 3:

FY 19 Internal Audit Summary Report

Vermont State Colleges

Internal Audit Summary Report FY2019



BACKGROUND

The Vermont State Colleges system is comprised of two colleges, two universities and the Office of the Chancellor. Each of the colleges and universities 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.

Credit Card/Purchasing Card Policy - Policy 423

Travel Policy – Policy 424

Hospitality Policy - Policy 425

Procurement Card programs have quickly become a best practice for many organizations in the arena of procurement practices. The Vermont State Colleges instituted its P-Card program in 2007 to “establish a more efficient, cost-effective method of purchasing and payment for small-dollar transactions”. The VSC P-Card is a Visa credit card issued by Bank of America. At the time of the last internal audit of p-cards in 2014, there were 485 card issued to VSC employees. Currently, there are 520 cardholders in the VSC Procurement Card program, which is approximately 1/2 of the full-time employee count. In FY18, \$8.2m was expended in the card program, which represents approximately 25% of total supplies, services and travel expenditures for the Vermont State College System. As such, the Procurement Card program has been a significant practice and benefit to the Vermont State Colleges, but not without inherent risk. Since the formation of the shared services model for Accounts Payable, the management and oversight of the Procurement Card (P-card) program has resided at the Office of the Chancellor.

OBJECTIVES

The overall objectives of an internal audit are to determine whether the Vermont State Colleges System:

- 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 the Procurement Card (P-Card) program.

SCOPE

The scope of the audit includes a risk assessment of management controls as they relate to the VSC Procurement Card (P-Card) program:

1. Are Procurement Cards used only for authorized purchases within applicable institutional and VSC policy?
2. Do Cardholders know and follow the VSC policies, procedures and the Procurement Card program manual?
3. Have P-Card expense reports been properly approved?
4. Has documentation been provided that supports the expenditures?
5. Are purchases in line with the cardholder's job responsibilities?

METHODOLOGY

To address our objectives, we reviewed industry rules and regulations, best practices and related internal controls regarding Procurement Card programs. We reviewed the relevant VSC policies and procedures. We required the Business Offices, Admissions, and Facilities departments at each of the institutions to complete a Controls Questionnaire specific to the internal controls and procedures within their functional areas. Additionally, we conducted interviews with the Controllers and/or Deans of Administration at each College/University. See Appendix A.

To assist with our assessment, we examined the colleges' written procedures (if available) and the FY19 internal control self-assessments, made observations, and reviewed original documents in order to analyze the design of the processes, procedures and internal controls.

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

1. Procurement (P-Card) process documents/manuals for existence, adequacy and relevance.
2. Five new cardholders for proper execution of the *request-new-pcard* form, including all required signatures; existence of the p-card acknowledgement form on file at OC; verification that the parameters/card limits on request form match what was requested in BOA WORKS (the vendor Bank of America website for P-Card management); and timeliness of processing from request to card issuance.
3. Five cardholder *pcard-limit-increase-request* forms for complete and accurate execution of the form, including signature approvals; accuracy of changes on the form with the third party vendor website; and timeliness of processing the request for the cardholder.
4. Ten cardholder expense logs for existence (cardholder had submitted to OC) and adherence to the VSC P-Card policy and manual, including supervisor approvals; existence and adequate documentation for expenditures; existence of non-allowable or unauthorized restricted purchases; evidence of violations such as sales tax paid, split transactions, or items under contract; proper resolution of any disputed items within the 10 days allowed in policy; adherence to the VSC Travel and Hospitality policies as applicable; and existence of any potential conflicts of interests.
5. Ten cardholders for proper and timely submission of FY19 expense logs and verification of no missing expense logs for two consecutive months.

The audit evaluated the adequacy of controls and processes to achieve key business objectives as it related to the Procurement (P-Card) Program.

RESULTS

1. Internal Controls

Strong Controls –

- MCC controls are in place and working adequately to ensure purchases are being made with authorized vendors and are relevant to the cardholder's job function.
- Dollar limits are established in policy/procedure; and there are adequate procedures for making and approving changes.
- P-cards are used for authorized purchases - there were no evidence of prohibited transactions, and restricted purchases were limited.
- The p-card manual and training resources are adequate and provide sufficient education to cardholders at the onset of program enrollment.
- Proper receipt documentation for expenditures is maintained.
- An anonymous tip line is available through Ethics Point located on the VSC portal.
- The process for lost and stolen cards is adequate.
- The process for terminated employees is adequate.
- There was no evidence of splitting of transactions to circumvent credit limits.

Weak Controls –

- Background checks have not been performed on all cardholders.
- Timely reconciliation of expense logs by cardholders and tracking/follow up on late or no submissions by administration.
- Placing card on hold status or three-strike rule is not enforced.
- Cards are not suspended for employees on probation due to a performance issue.
- Thoroughness of supervisory review and signature approval of purchases.
- Covered purchases under contract or with preferred suppliers – i.e. WB Mason for office supplies – limited evidence of non-compliance with p-card policy/procedural manual.
- New cardholder and change requests lacking signature approvals and pertinent information.
- There were instances of sales and use tax being charged on purchases.
- Misuse for travel expenses – use of both per diem and p-card while traveling.

2. Test Sampling

- A. In 14 of 17 (82%) test samples of requests for new P-Cards, there existed proper execution of the *request-new-pcard* form, including all required signatures; existence of the p-card acknowledgement form on file at OC; verification that the parameters/card limits on request form match what was requested in BOA WORKS (the vendor Bank of America website for P-Card management); and timeliness of processing from request to card issuance.
- B. In 20 of 25 (80%) test samples of *pcard-limit-increase-request* forms, there existed complete and accurate execution of the form, including signature approvals; accuracy of changes on the form with the third party vendor website; and timeliness of processing the request for the cardholder.
- C. In 44 of 60 (73%) test samples of cardholders' expense logs, there existed timely submission to the OC; supervisor approvals; existence and adequate documentation for expenditures; no non-allowable and no unauthorized restricted purchases; no evidence of violations such as sales tax paid, split transactions, or items under contract; proper resolution of any disputed items within the 10 days allowed in policy; adherence to the VSC Travel and Hospitality policies; and no existence of any potential conflicts of interests.
- D. In 47 of 60 (78%) test samples of cardholders expense log submissions in FY19, there was proper and timely submission and no missing expense logs for two consecutive months.

RECOMMENDATION OF BEST PRACTICES FOR REVIEW AND IMPLEMENTATION

Procurement Card (P-Card) Program:

1. Review and analyze the utilization of the *receipt imaging and approvals* functionality built within the Bank of America P-Card Program that is not currently being utilized by VSC.
2. Update the P-Card policy/manual to reflect any changes in regulations, process and best practices in the Procurement Card industry, as this has not been revised since August 2014.
3. Enforce adequate and timely reporting by cardholders and enact card suspension and the three-strike rule as a result of non-compliance.
4. Create an annual training for all cardholders and supervisors for continuous education and to ensure a systematic approach to addressing the common pitfalls and deviations from policy/procedure.

APPENDIX A

Vermont State Colleges

Internal Audit

FY19

AUDIT NAME: Procurement Card Program

COLLEGE: _____

AUDIT DATE: March 2019

“CONTROLS QUESTIONS”

Internal controls is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

Procurement Card (P-Card) Program:

Goal – To ensure protection, accurate processing and reporting, internal control practices are developed for separation of duties, appropriate authorizations and approvals, securing assets, and reconciling.

Key controls include:

- Background checks
- Dollar Limits
- Merchant Classification Codes (MCC)
- Probation
- Education
- Reconciliation Review
- Placing P-Cards on Hold Status
- Three Strike Rule
- Monthly Reports from P-Card Administrator
- Strong Policy
- Anonymous Tip Line

1. Do all key controls listed above exist at your institution? Please note the exceptions.

2. How do you determine whether an employee is eligible for a P-Card?

3. Are you or someone at your institution notified if one of your cardholders has a lost or stolen card?

4. What is your process at the time of an employee's termination specifically as it relates to the P-Card?

5. Are you aware of any instances in which an individual receives and begins utilizing their P-Card prior to receiving the training and signing the Acknowledgement form?
6. VSC P-Card Program Code of Conduct:
 - a. How do you ensure that cardholders are gaining the maximum value and quality for each purchase?
 - b. Are you aware of any supplier gifts being offered/accepted?
 - c. Are you aware of any instances in which the P-Card is not kept in a secure location by the cardholder?
 - d. Are you aware of any instances in which cardholders are delegating the use of their P-Card?
 - e. Are you aware of any P-Card business transactions that may be considered a conflict of interest? Do you believe that your cardholders understand this concept?
7. Do you allow restricted purchases for your cardholders? If so, how do you control this process?
8. What is your process for determining suspension or termination of an employee's P-Card?
9. Are you aware of any fraudulent activities or transactions on the P-Card? What is your process for handling these situations?
10. Are you aware of any violations of the P-Card policy or manual?
11. In a case in which an employee is on probation for performance issues, do you suspend their P-Card?
12. Do you feel that the supervisors are performing an adequate review of the cardholder monthly expense logs? Do you do anything to re-enforce good performance in this area?
13. What aspect of the P-Card Program would you like to see improved or changed?