



**MEMORANDUM**

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

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

**DATE:** February 5, 2019

**SUBJECT:** Audit Committee Meeting scheduled for February 11, 2019

The Audit Committee of the VSC Board of Trustees will meet at 1:00 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**

**February 11, 2019  
1:00 pm at the Office of the Chancellor**

**AGENDA**

A. ITEMS FOR DISCUSSION AND ACTION

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

B. ITEMS FOR INFORMATION AND DISCUSSION

1. Review FY2019 Internal Audit Plan Proposal
2. Review Summary of Whistleblower reports
3. Discuss Disaster Recovery Planning

**UNAPPROVED Minutes of the VSC Board of Trustees Audit Committee held Monday,  
October 24 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 October 24, 2018, at the Office of the Chancellor in Montpelier, VT.

Committee members present: Linda Milne (Chair), Lynn Dickinson (Vice Chair), Karen Luneau (via phone @ 11:15)

Absent: Chris Macfarlane

Other Trustees: Church Hindes, Michael Pieciak

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

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

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

Others: Kieth Goldie, Audit Manager, O'Connor & Drew P.C.  
Benjamin DeForst, Audit Supervisor, O'Connor & Drew P.C.  
Lola Duffort, VTDigger

Chair Milne called the meeting to order at 11:02 a.m.

## ITEMS FOR DISCUSSION AND ACTION

1. Approval of the Minutes of the April 30 , 2018 Meeting of the Audit Committee

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

2. Review and Approval of FY2018 Draft Audited Financial Statements and Uniform Guidance Single Audit Report

Auditors Keith Goldie and Ben DeForst of O'Connor & Drew PC, Certified Public Accountants presented the FY2018 draft audited financial statements and uniform guidance single audit report and answered questions from the Committee.

**Trustee Dickinson moved and Trustee Pieciak seconded the resolution to recommend the FY2018 draft Audited Financial Statement to the Board. The motion passed unanimously.**

## ITEMS FOR INFORMATION AND DISCUSSION

1. Article: *Audit Committees: The Roles and Responsibilities*
2. Article: *Deloitte: Audit Committee Resource Guide*

Sheilah Evans, System Controller & Senior Director of Financial Operations gave a brief overview of the articles.

3. Discussion of the FY19 internal audit process

Sheilah Evans provided an overview of the FY19 internal audit process. Questionnaires will be distributed in November. Then, once received, the internal committee will then analyze the questionnaires to determine areas of focus to recommend to the Audit Committee at their next meeting on February 11, 2019. Trustee Milnes requested that a summary report of the Whistleblower submissions be added to the agenda of the February 11, 2019 Audit Committee Meeting.

At 12:06pm Trustee Dickinson moved and Trustee Pieciak seconded that the Audit Committee of the VSC Board of Trustees enter executive session, pursuant to 1 V.S.A. § 313(a)(3), for the purpose of evaluating public officers or employees, consistent with Government Auditing Standards.

Along with the members of the Audit Committee (and other members of the Board of Trustees present), the Committee invited the outside auditors from the firm of O'Connor & Drew, P.C. to attend. The Committee entered executive session at 12:06 p.m. The Committee exited executive session at 12:16 p.m. and took no action.

4. Public Comment

There was no public comment.

5. Adjourn

Chair Milne adjourned the meeting at 12:16 p.m.

UNAPPROVED

B. ITEMS FOR INFORMATION AND DISCUSSION

1. **Review FY2019 Internal Audit**

For FY19, we are in our third year utilizing the newer version of an internal controls questionnaire. This was a significant improvement from our prior version. Additionally, a year ago, we began requesting completed questionnaires from various functional areas at our colleges/universities outside of the business office staff. This year, aside from the Business Office at each institution, we also solicited questionnaires from the Admissions and Facility departments. This methodology has provided us more in depth information regarding internal controls and areas of risk at our institutions.

When selecting a topic for internal audit we consider multiple factors, including the questionnaire results, the current regulatory environment and trends, current VSC projects underway, as well as the last time we audited a particular function or topic area. Based on our analysis, the Internal Audit Committee is recommending that the Procurement Card (P-card) Program be the scope of the FY19 Internal Audit.

Please refer to the Internal Audit Plan Proposal herein for detail.

Respectfully,

Internal Audit Committee: Sharron R. Scott, Dean of Administration, NVU  
Sheilah M. Evans, VSC System Controller/Senior Director  
of Financial Operations, OC  
Brenda C. Flint, Director of Business Services, OC

# Vermont State Colleges

## Internal Audit Plan

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*FY2019*





**Internal Audit Plan  
Authorization Memorandum**

I have carefully assessed the FY19 Internal Audit Plan for the Vermont State Colleges. This document has been completed in accordance with the parameters set forth by the Audit Committee of the VSC Board of Trustees.

MANAGEMENT CERTIFICATION - Please check the appropriate statement.

\_\_\_\_\_ The document is accepted.

\_\_\_\_\_ The document is accepted pending the changes noted.

\_\_\_\_\_ The document is not accepted.

\_\_\_\_\_  
NAME  
Audit Committee, Chair

\_\_\_\_\_  
DATE

\_\_\_\_\_  
NAME  
VSC Chief Financial Officer

\_\_\_\_\_  
DATE

\_\_\_\_\_  
NAME  
Internal Audit Manager

\_\_\_\_\_  
DATE

\_\_\_\_\_  
NAME  
Internal Audit Supervisor

\_\_\_\_\_  
DATE

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# INTERNAL AUDIT PLAN

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## **1.0 GENERAL INFORMATION**

## **1.0 GENERAL INFORMATION**

### **1.1 Purpose/Objective**

The Internal Audit process is extremely important as it is designed to evaluate and improve the effectiveness of risk management, control and governance processes, as well as add value and improve an organization's operations. Assessing internal controls ensures 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.

**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 the procurement card (p-card) program.**

### **1.2 Scope**

The Vermont State Colleges internal audit group, through the direction and oversight of the Audit Committee of the Board of Trustees, prepares an internal audit plan, conducts the annual internal audit and issues a final report to the Committee. The audit is of the current fiscal year. The scope of the FY19 internal audit will be 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 properly approved?
4. Has documentation been provided that supports the expenditure?
5. Are purchases in line with the cardholder's job responsibilities?

## **1.3 Overview**

The Vermont State College system is comprised of two colleges, two universities and the Office of the Chancellor. Each of the colleges and the universities operates as a single business unit in that most 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.

Since the creation of the shared services model for Accounts Payable, the management and oversight of the procurement card (p-card) program has been at the Office of the Chancellor.

### Procurement Cards:

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.

- Benefits of a p-card program include:
  - Improve supplier relations from quicker payments
  - Improve efficiency in accounts payable by reducing the amount of invoices processed
  - Can restrict types of purchases by Merchant Category Code or (MCC)
  - Reduce the number of checks processed
  - Reduce amount of purchase orders created
  - Reduce number of suppliers maintained in the supplier master file
  - Can expedite purchasing for urgent repairs and other items needed immediately.
  
- However, there are also red flags for potential p-card fraud:
  - Unusual purchases made with a p-card
  - Late reconciliations or incomplete reconciliations
  - Photocopied receipts instead of originals are submitted with expense reports
  - Split payments (an indicator of an attempt to circumvent purchase limit rules)
  - Sudden unusual patterns in a particular employee’s monthly p-card purchases
  - Forged receipts

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## 2.0 Audit Process

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There are comprehensive industry standards for administration and oversight of a procurement card program. Necessary controls – both preventive and detective – are important to reduce the likelihood of p-card abuse.

The following are examples of cardholder actions that may raise red flags and require additional review:

- Monthly reconciliations are always late or not performed. The person may be attempting to avoid any review of the purchases made. Certain receipts were not included in the monthly reconciliation.
- The individual had been placed on probation for performance issues. The person may believe he or she is about to be terminated and has nothing to lose by misusing the p-card.
- The employee presented several reconciliations at a time or stated that the reconciliations needed to be signed quickly due to a deadline. This technique reduces the amount of time for review, thus allowing unauthorized transactions to be hidden.
- The employee submitted receipts with a long list of purchase items. Personal items can be hidden within lengthy lists.
- Purchases were made after business hours from restaurants, gas stations or other merchants. The person can use the excuse that it was a mistake and used the wrong card.
- Supervisors were not taking the time to examine the monthly reconciliation. The supervisor trusts the person or has too many more-important tasks to perform.

The following preventive controls should be in place for any p-card program:

- Background checks: All cardholders should undergo a background check. Giving an employee a p-card is tantamount to providing the cardholder access to one of the organization's most liquid assets: cash.
- Dollar limits: An individual's p-card should have a reasonable monetary limit based on both daily and monthly use. Some organizations set limits at a standard level for all cardholders or for employees with similar jobs. By tailoring the limits to each cardholder, the total dollars at risk can be reduced. If a special situation arises in which a dollar limit is too low and a higher dollar amount is required, the p-card limit can be increased for the specific transaction and then returned to the original level.
- Merchant Classification Codes: MCC should be used to prohibit transactions at various establishments, such as cash advances, liquor stores, big box stores and movie theaters. This can be somewhat of an issue, especially when the p-card is used at a big box store where non-business-related items can be interspersed with legitimate items.

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## 2.0 Audit Process

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- Probation: If an employee is placed on probation for a performance issue, place the p-card on hold status until the person is off probation.
- Education: Educate all p-card holders, administrators and supervisors on their card-related roles and responsibilities on an annual basis. This training should include a clear definition of roles, timing, type of documentation required, approvals and specific consequences if not performed in a timely manner. At the conclusion of the education, all p-card holders must sign an updated cardholder acceptance form that reiterates the appropriate uses of a p-card.

Detective controls are retrospective actions to identify questionable transactions. As implied, these controls identify potential issues after the transactions have occurred, but they cannot stop a fraudulent transaction from occurring. However, detective measures can assist in quickly identifying potential issues. Some of the more common detection controls associated with p-cards usage are:

- Reconciliation review: Perform reviews of transactions, explanations and receipts in a timely manner. The receipts should be reviewed with a specific focus on each receipt's date and time, items purchased and the reasonableness of the expenses.
- Placing p-card on hold status: If the reconciliation is not completed by the due date or there are missing receipts, place the p-card on hold status (not allowed to make purchases) until the reconciliation has been completed, reviewed and approved by the appropriate supervisor. The approver should send an email requesting the card be reactivated only after all processes are completed. Track the number of times a person is late or has an incomplete reconciliation (missing receipts).
- Three-strike rule: If a person repeatedly abuses the p-card (for example, routine tardiness in reconciliation or charging personal items), cancel the p-card and do not allow the person to get it reinstated.
- Monthly reports: The overall p-card administrator should generate a monthly report and forward it to the appropriate manager. The report should include spending trends, potential split transactions and dollars by merchant. This will provide additional oversight regarding appropriate use.
- Strong policy: The policy should state clearly what the p-card can and cannot be used to purchase. The policy also should identify the disciplinary action for accidental misuse versus intentional misuse.
- Anonymous tip line: Most frauds are discovered as the result of a tip. A tip line allows employees to report suspected p-card misuse.

**2.0 Audit Process**

The following is a great reference that summarizes in a chart format an industry standard rigorous procurement card Internal Controls Program.

Internal Control	Type of Control	Risks Prevented
<p><b>1.1.1 Delegation of Authority (DOA) Approval and Review.</b></p> <p>Management with Delegation of Authority (DOA) is responsible for 100% audit of cardholder's statement and supporting documentation/receipts. Additionally, management's DOA signature approval required on cardholder's statement (DOA applies to each transaction on the statement, not the statement total).</p> <p><b>Refer to risks: C-1, C-2, C-3, C-4, C-5, C-6, C-7</b></p>	<p><b>Preventive and Detective</b></p>	<p><b>C-1</b> Controls may be bypassed allowing the potential for theft or error.</p> <p><b>C-2</b> Expenditures or services may be ordered and received by an unauthorized individual.</p> <p><b>C-3</b> Duplicate payments may occur, or payments may be made for the wrong amount or to unauthorized or nonexistent suppliers</p> <p><b>C-4</b> Purchases or services may be unauthorized, recorded for the wrong amount or in the wrong period, and/or payment made to the wrong person.</p> <p><b>C-5</b> Items may be recorded and payment made for goods or services not received.</p> <p><b>C-6</b> Operations may be adversely affected as suppliers may refuse future business with the company.</p> <p><b>C-7</b> Cash utilization may not be optimized.</p>

**2.0 Audit Process**

<p><b>1.1.2 P-Card Statement Submission and Tracking.</b></p> <p>1) The Cardholder submits statement with supporting documentation for each transaction.                  2) The P-Card Administrator reviews spending activity in credit card on-line recording and reporting system.                  3) The P-Card Administrator reviews every statement upon receipt to ensure that it is:</p> <ul style="list-style-type: none"> <li>● Date stamped with date received in A/P.</li> <li>● Verified for appropriate management Delegation of Authority (DOA).</li> </ul> <p>4) The P-Card Administrator tracks each statements on P-card audit log:</p> <ul style="list-style-type: none"> <li>● Used to monitor submission of statements.</li> <li>● Follow up on outstanding statements.</li> <li>● Document audit activity.</li> </ul> <p><b>Refer to risks: C-1, C-2, C-3, C-4, C-5, C-6, C-7</b></p>	<p><b>Preventive and Detective</b></p>	<p><b>C-1</b> Controls may be bypassed allowing the potential for theft or error.</p> <p><b>C-2</b> Expenditures or services may be ordered and received by an unauthorized individual.</p> <p><b>C-3</b> Duplicate payments may occur, or payments may be made for the wrong amount or to unauthorized or nonexistent suppliers</p> <p><b>C-4</b> Purchases or services may be unauthorized, recorded for the wrong amount or in the wrong period, and/or payment made to the wrong person.</p> <p><b>C-5</b> Items may be recorded and payment made for goods or services not received.</p> <p><b>C-6</b> Operations may be adversely affected as suppliers may refuse future business with the company.</p> <p><b>C-7</b> Cash utilization may not be optimized.</p>
<p><b>1.1.3 Random Audits.</b> Conduct a minimum of 10% of the total cardholder population; however, on average audit 20 – 30% of all statement. The random audit process should include the following components.</p> <ul style="list-style-type: none"> <li>● <b>Supplier Review</b> – Appropriateness of purchase.</li> <li>● <b>Misuse of Card</b> – Personal purchases.</li> <li>● <b>Justification</b> – Documentation/explanation for unusual purchases and pre-approvals if applicable.</li> </ul> <p><b>Refer to risks: C-1, C-2, C-3, C-4, C-5</b></p>	<p><b>Detective</b></p>	<p><b>C-1</b> Controls may be bypassed allowing the potential for theft or error.</p> <p><b>C-2</b> Expenditures or services may be ordered and received by an unauthorized individual.</p> <p><b>C-3</b> Duplicate payments may occur, or payments may be made for the wrong amount or to unauthorized or nonexistent suppliers</p> <p><b>C-4</b> Purchases or services may be unauthorized, recorded for the wrong amount or in the wrong period, and/or payment made to the wrong person.</p> <p><b>C-5</b> Items may be recorded and payment made for goods or services not received.</p>

**2.0 Audit Process**

<p><b>1.1.4 Targeted Audits:</b> Targeted audits should be conducted in addition to random audits and are specific to cardholder; general ledger account and supplier spend. The following components should be addressed,</p> <ul style="list-style-type: none"> <li>● Review all charges over a designated dollar amount. Examples are \$10,000.00, \$15,000.00 or \$20,000.00 <b>Note:</b> This amount is usually determined by your company's PO policy,</li> <li>● Preferred supplier spending on office supplies.</li> <li>● Look for any charitable contributions.</li> <li>● Review 100% of statements for retail or restaurant spending to identify misuse or unusual purchases.</li> <li>● Use credit card on-line reporting tools and reports to assist with audit and review spend activity.</li> <li>● Review all payments to foreign suppliers.</li> <li>● Review payments to employees.</li> </ul> <p><b>Refer to risks: C-1, C-2, C-3, C-4, C-5</b></p>	<p><b>Detective</b></p>	<p><b>C-1</b> Controls may be bypassed allowing the potential for theft or error.</p> <p><b>C-2</b> Expenditures or services may be ordered and received by an unauthorized individual.</p> <p><b>C-3</b> Duplicate payments may occur, or payments may be made for the wrong amount or to unauthorized or nonexistent suppliers</p> <p><b>C-4</b> Purchases or services may be unauthorized, recorded for the wrong amount or in the wrong period, and/or payment made to the wrong person.</p> <p><b>C-5</b> Items may be recorded and payment made for goods or services not received.</p>
<p><b>1.1.5 P-Card Policy and Training.</b> The policy should state clearly what the P-card can and cannot be used to purchase. The policy also should identify the disciplinary action for accidental misuse vs. intentional misuse. The policy contains a P-Card cardholder agreement and specifics the training requirements for the cardholder and their manager.</p> <p><b>Refer to risks: C-1, C-2, C-3, C-4, C-5</b></p>	<p><b>Preventive</b></p>	<p><b>C-1</b> Controls may be bypassed allowing the potential for theft or error.</p> <p><b>C-2</b> Expenditures or services may be ordered and received by an unauthorized individual.</p> <p><b>C-3</b> Duplicate payments may occur, or payments may be made for the wrong amount or to unauthorized or nonexistent suppliers</p> <p><b>C-4</b> Purchases or services may be unauthorized, recorded for the wrong amount or in the wrong period, and/or payment made to the wrong person.</p> <p><b>C-5</b> Items may be recorded and payment made for goods or services not received.</p>

**2.0 Audit Process**

<p><b>1.1.6 Segregation of Duties.</b> The P-Card Administrator should be allowed to make decisions on the company's P-Card program. Additionally, the P-Card Administrator should not be granted physical or system access to accounts payable suppliers or purchasing information.</p> <p><b>Refer to risks: C-1, C-2, C-3, C-4, C-5, C-6, C-7</b></p>	<p><b>Preventive</b></p>	<p><b>C-1</b> Controls may be bypassed allowing the potential for theft or error.</p> <p><b>C-2</b> Expenditures or services may be ordered and received by an unauthorized individual.</p> <p><b>C-3</b> Duplicate payments may occur, or payments may be made for the wrong amount or to unauthorized or nonexistent suppliers</p> <p><b>C-4</b> Purchases or services may be unauthorized, recorded for the wrong amount or in the wrong period, and/or payment made to the wrong person.</p> <p><b>C-5</b> Items may be recorded and payment made for goods or services not received.</p> <p><b>C-6</b> Operations may be adversely affected as suppliers may refuse future business with the company.</p> <p><b>C-7</b> Cash utilization may not be optimized.</p>
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## 1.4 Plan References

### 1. The Self-Assessment of Internal Control Questionnaire

The Self-Assessment of Internal Control Questionnaire is a review of the internal policies and procedures at the Office of the Chancellor and the colleges/universities within the Vermont State College System. The questionnaire is designed to help identify risk as well as eliminate considerations of risk that do not apply. The questionnaire serves as management tool for evaluating how well risks are being addressed through 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 institutions.

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 colleges and the answers aggregated<sup>1</sup>. Generally, 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.

	<u>Lower Risk</u>	<u>Y</u>	<u>N</u>	<u>IDK</u>	<u>NA</u>
<b>A. ORGANIZATIONAL GOVERNANCE</b>					
Does your department/organization have a written mission statement?	Y	6	2	0	0
Does management clearly communicate and demonstrate integrity and other ethical values consistent with the College /University’s business conduct policy?	Y	8	0	0	0
Does your department have an organizational chart that defines lines of authority and responsibility?	Y	6	2	0	0
Is the organizational chart up to date?	Y	6	0	0	2
Has your department documented all internal policies and procedures that are related to performing all significant administrative processes specific to your department or division’s operations?	Y	5	2	1	0
Are these policies and procedures reviewed and up to date?	Y	4	3	1	0
Do you believe that responsible persons in your department are sufficiently familiar with Vermont State College policies related to personnel management, financial matters, use of information and related technology, and regulatory	Y	7	1	0	0

<sup>1</sup> The terms “department” and “college” may be interchangeable depending upon the context of the question.

**2.0 Audit Process**

compliance?					
Are administrators within your department aware of how to access on-line policies and procedures from Human Resources, Finance, Procurement, the Public Safety Office, Research Administration and other key areas of the College/University?	Y	8	0	0	0
<b>A. ORGANIZATIONAL GOVERNANCE TOTAL</b>		<b>50</b>	<b>10</b>	<b>2</b>	<b>2</b>

**B. FINANCIAL PLANNING AND MONITORING**

Are funding sources evaluated annually to assess the sustainability of current funding levels?	Y	7	0	1	0
Does the budget process include key members of management?	Y	7	1	0	0
Are one or more individuals in your department responsible for reviewing the department's monthly Synoptix financial reports?	Y	8	0	0	0
Are these reports reviewed: Monthly " Every few months " Infrequently	Y	8	0	0	0
Are budget managers held accountable for financial performance?	Y	6	1	1	0
Are responsibilities divided among staff members (so that no single employee controls all steps of a financial transaction) thereby maintaining appropriate segregation of duties? (If inadequate segregation of duties does exist, please indicate the process or transaction affected in the Comments section.)	Y	7	0	0	1
If segregation of duties is not practical, does supervisory oversight exist at any level over these financial transactions?	Y	4	0	0	4
Are there any important financial reconciliations that are not being routinely performed that you think should be?	N	0	5	1	2
<b>B. FINANCIAL PLANNING AND MONITORING TOTAL</b>		<b>47</b>	<b>7</b>	<b>3</b>	<b>7</b>

**C. PERSONNEL**

Are up-to-date position descriptions available for each employee in the organization?	Y	6	1	1	0
Are sufficient training opportunities provided to improve employee work related competencies in accordance with their job responsibilities?	Y	6	2	0	0

**2.0 Audit Process**

Has the department established cross-training or contingency plans for significant changes in personnel?	Y	8	0	0	0
Are Time Entry records pertaining vacation and sick leave up to date?	Y	8	0	0	0
Are overtime hours, and other special work requirements (on-call, shift premium) reviewed and approved in advance by the employee's supervisor?	Y	8	0	0	0
Are annual performance evaluations given to departmental employees in accordance with the bargaining contracts or personnel handbook?	Y	5	2	1	0
Have procedures been established to ensure that terminating employees return all College/University ID cards, keys, laptops, purchasing/travel related credit cards, equipment, etc., and that appropriate systems administrators are notified to remove all logon privileges to departmental and College/University systems?	Y	7	1	0	0
Are forms completed promptly and submitted to the Payroll/HR for new hires and changes in employment status?	Y	7	0	1	0
Are employees sufficiently trained to perform assigned roles and responsibilities to support payroll processing(time reported, on-line time entry, etc.)?	Y	8	0	0	0
Are payroll reports monitored to identify unapproved time, miscodings, etc.?	Y	8	0	0	0
<b>C. PERSONNEL TOTAL</b>		<b>71</b>	<b>6</b>	<b>3</b>	<b>0</b>

<b>D. BUSINESS CONDUCT POLICY</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Are all department personnel aware of the Whistleblower Policy #211?	Y	6	0	2	0
Are all faculty and staff members in your department aware of the Vermont State College's Employee Conflict of Interest Policy that requires employees to avoid conflicts (or any appearance of conflicts) between their personal interests and those of the College/University?	Y	6	0	2	0
Do you know of any individual(s) in your department who, because of the nature of his or her position should be asked to complete an annual Conflict of Interest Disclosure Statement?	Y	0	7	1	0
Are all department personnel familiar with the Hospitality Policy #425?	Y	3	2	3	0
<b>D. BUSINESS CONDUCT POLICY TOTAL</b>		<b>15</b>	<b>9</b>	<b>8</b>	<b>0</b>

**2.0 Audit Process**

<b>E. REPORTING OF FRAUD/ FRAUD INDICATORS</b>					
Until completing this questionnaire are you aware of any instances of suspected fraud that should be reported to the College/University President, Chancellor or reported using the VSC's reporting hotline (see below)?	N	0	8	0	0
Have any unusual trends or discrepancies in department accounts been recently detected?	N	0	8	0	0
Are there any department assets (property, equipment, supplies, etc.) that you believe are not adequately protected against theft or misuse?	N	1	7	0	0
Have any missing numbers in sequences of numerically controlled documents been recently identified?	N	0	5	2	1
Until completing this questionnaire were you aware that a website exists to report suspected instances of employee misconduct and that it can be done anonymously? <a href="http://www.vsc.edu/faculty-and-staff/Pages/Employee-Benefits.aspx">http://www.vsc.edu/faculty-and-staff/Pages/Employee-Benefits.aspx</a> . Access is also toll-free: (866)-215-4016	Y	5	3	0	0
<b>E. REPORTING OF FRAUD/ FRAUD INDICATORS TOTAL</b>		<b>6</b>	<b>31</b>	<b>2</b>	<b>1</b>

<b>F1. INFORMATION TECHNOLOGY</b>					
Are all department personnel familiar with the VSC Computing and Telecommunications Technology Conditions of Use Policy #502?	Y	6	2	0	0
Are all department workstations upgraded with the latest security patches and virus protection?	Y	6	0	2	0
Is critical information backed-up and stored off-site?	Y	4	0	2	0
Is sensitive information protected by operator ID/password?	Y	8	0	0	0
Are all passwords adequately controlled and protected from unauthorized use?	Y	7	0	1	0
Are passwords kept confidential (i.e., not shared or posted at work sites)?	Y	8	0	0	0
Are you aware of any "default" passwords that are still being used for any IT applications rather than having been changed to more secure, personal passwords?	N	2	6	0	0
Are computer applications logged-off when the user is going to be away from the terminal or PC for an hour or more?	Y	7	0	1	0
Are computers and servers maintained in a secure area?	Y	5	1	2	0
Are laptop computers secured when not in use?	Y	7	0	1	0

**2.0 Audit Process**

Are electrical surge suppressers used on all computer equipment?	Y	6	1	1	0
Is each departmental server equipped with an Uninterrupted Power Supply (UPS)?	Y	2	0	6	0
If a department has a critical information system that is connected to an outside network, is it protected by a firewall?	Y	3	0	5	0
Is all software properly licensed using either a site or individual licensing arrangement?	Y	6	0	2	0
Has a disaster recovery/business resumption plan been developed should one of your critical information business systems fail or be destroyed?	Y	2	3	3	0
Has the disaster recovery/business resumption plan been tested/simulated and if so, when (indicate in Comments section)?	Y	2	2	3	0
<b>F1. INFORMATION TECHNOLOGY TOTAL</b>		<b>81</b>	<b>15</b>	<b>29</b>	<b>0</b>

**F2. INFORMATION CONFIDENTIALITY AND DATA PRIVACY**

Are all department personnel familiar with the requirements concerning the handling of private and confidential College/University information?	Y	7	0	1	0
Do your computers/applications contain any of the following combinations of confidential data elements that are considered to be “individually-identifiable” information that could be used to assist with identify theft? #1) Name & Social Security #2) Name & Date of Birth3) Name & Bank Account #4) Name & Credit Card #5) Name and Mother’s Maiden-name #6) User ID & Passwords for University Systems? (NOTE: List those combinations in use by number in the Comment section)	N	7	0	0	1
Do your computers/applications contain private or confidential information about students?	N	7	1	0	0
Do your computers/applications contain private or confidential information about faculty/employees?	N	7	0	1	0
Do your computers/applications contain private or confidential information about donors?	N	4	2	2	0
Does your area collect any (as defined above) individually identifiable private or confidential University information on paper forms or records?	N	4	4	0	0

**2.0 Audit Process**

Do these paper forms/records contain private or confidential information about students?	N	3	5	0	0
Do these paper forms/records contain private or confidential information about faculty/employees?	N	2	6	0	0
Do these paper forms/records contain private or confidential information about donors?	N	3	5	0	0
Do these paper forms/records contain any of the following combinations of confidential data elements that are considered "individually-identifiable" information that could be used to assist with identify theft? #1) Name & Social Security #2) Name & Date of Birth #3) Name & Bank Account #4) Name & Credit Card #5) Name and Mother's Maiden-name #6) User ID & Passwords for VSC systems? (NOTE: List those combinations in use by number in the Comment section)	N	5	3	0	0
Are these paper forms/records stored in secure cabinets that prevent unauthorized personnel from gaining access to this data?	Y	4	3	0	1
If you maintain information related to students, have you received FERPA training?	Y	6	1	0	1
If you maintain information related to patients, have you received HIPAA training?	Y	0	0	2	6
Does your department accept payment via credit card?	N	4	4	0	0
If you answered yes to question 14, are you utilizing Touchnet?	Y	4	0	0	4
<b>F2. INFORMATION CONFIDENTIALITY AND DATA PRIVACY TOTAL</b>		<b>67</b>	<b>34</b>	<b>6</b>	<b>13</b>

<b>G. BANK ACCOUNTS/PETTY CASH</b>	
Does your College/University have a checking account with an outside banking institution?	Y
If yes, what it is used for? (use comments section)	
Does your department maintain a petty cash fund? If yes, what is the amount of this fund? (use comments section)	N
Was this petty cash fund established with the approval of the Dean of Administration?	Y
Do more than two individuals have physical access to the petty cash fund cash box or safe? (If so, how many?) (use comments section)	N
Is the petty cash fund maintained in a safe or lockable cashbox and stored in a secured place?	Y

4	1	0	3
0	0	0	4
2	5	0	1
1	0	2	5
1	1	1	5
2	0	1	5

**2.0 Audit Process**

Is supporting documentation provided for all petty cash disbursements?	Y	2	0	1	5
Is the petty cash fund reconciled and replenished at least monthly? (If not, please indicate how often)	Y	2	0	1	5
Does a person other than the fund custodian reconcile the fund or perform an independent review of the reconciliation?	Y	2	0	1	5
<b>G. BANK ACCOUNTS/PETTY CASH TOTAL</b>		<b>16</b>	<b>7</b>	<b>7</b>	<b>38</b>

<b>H. CASH RECEIPTS/REVENUE</b>					
Does adequate segregation of duties exist within your department between staff members responsible for receiving, depositing and reconciling cash and checks?	Y	4	1	0	3
Are all checks made payable to the College/University?	Y	6	0	0	2
Are all checks restrictively endorsed immediately upon receipt with a stamp, "For Deposit Only – College/University?"	Y	2	3	1	2
Is a cash receipt log maintained to create supporting documentation to which you can reconcile deposits?	Y	4	0	0	4
If cash is accepted, are pre-numbered receipts used to track payment?	Y	4	0	1	3
Are all unused pre-numbered receipts/tickets accounted for?	Y	3	0	1	4
Are deposits of funds made on the next business day?	Y	2	2	0	4
When funds cannot be deposited daily, are they transported or stored in a secure location at the end of the workday?	Y	5	0	0	3
Are cash and checks adequately protected when transferred to the Business Office or bank?	Y	6	0	0	2
Is there adequate physical security where cash handling activities occur?	Y	5	0	1	2
Is all information on cash or checks gifted to the College/University forwarded to the Advancement Office for gift processing?	Y	4	0	0	4
If you have any revenue generating activities, have you consulted with the System Controller at the Chancellor's Office to determine if any of the revenue is subject to unrelated business income tax (UBIT)?	Y	3	0	1	4
Has your Department consulted with the Chancellor's Office concerning whether sales tax should be charged to customers and how it should be deposited?	Y	2	0	1	5
<b>H. CASH RECEIPTS/REVENUE TOTAL</b>		<b>50</b>	<b>6</b>	<b>6</b>	<b>42</b>

**2.0 Audit Process**

<b>I. TRAVEL AND BUSINESS EXPENSES</b>					
Are members of your department aware of the VSC online Travel Policies and Procedures?	Y	8	0	0	0
Are travel plans made sufficiently in advance to obtain the most favorable transportation rates?	Y	8	0	0	0
Is all overnight travel authorized in advance by the traveler's Department Head, Supervisor or Director?	Y	8	0	0	0
Do you know of any instances of non-compliance with policies for reimbursing travel and entertainment expenses in accordance with the VSC's Travel policy or Federal regulations?	N	1	7	0	0
Do reimbursement requests include exchange rates for receipts submitted for international travel?	Y	4	0	2	2
When traveling internationally on federally funded grants, are any international carriers being used when departing from/to the United States?	N	0	0	2	6
Does someone in your department review travel and meeting expense reports to ensure alcohol expenses are not charged?	Y	7	1	0	0
Are travelers required to provide original receipts for all travel expenses over \$25 per day?	Y	8	0	0	0
Are copies in lieu of original receipts ever submitted by travelers in your department?	N	6	1	1	0
Are all requests for business and entertainment expenses documented in terms of how the activity was College/University or business related, including a listing of attendees (with titles)?	Y	6	0	1	1
<b>I. TRAVEL AND BUSINESS EXPENSES TOTAL</b>		<b>56</b>	<b>9</b>	<b>6</b>	<b>9</b>

<b>J. PROCUREMENT CARDS (Pcard)</b>					
Have P-cards been issued to all department personnel who are responsible for procurement?	Y	7	1	0	0
Has everyone that has a p-card read the p-card policy and procedures manual?	Y	8	0	0	0
Has a formal reconciliation protocol been established for each cardholder to reconcile his or her monthly P-card statements with packing slips, invoices or register receipts? (Note: Certain charges may be automatic such as water or cell phone services.)	Y	8	0	0	0

**2.0 Audit Process**

Is documentation of P-card activity, including supporting documents, sorted and stored by Month and/or Cardholder and by P-card Transaction report?	Y	6	1	1	0
<b>J. PROCUREMENT CARDS (Pcard) TOTAL</b>		<b>29</b>	<b>2</b>	<b>1</b>	<b>0</b>

<b>K. PROCUREMENT OF GOODS AND SERVICES</b>					
Does your department rely on someone outside of your department to coordinate bids for goods and services?	N	3	4	1	0
Does the department solicit at least 3 competitive bids for any purchase that exceeds \$25,000 and perform a competitive RFP process for purchases exceeding \$100,000?	Y	7	0	0	1
Does the department maintain written documentation for justifying any purchasing of sole source or preferred vendor for purchases that are not bid?	Y	5	0	1	2
Does the department reconcile purchases/goods received to their monthly budget statements?	Y	6	2	0	0
Do you ever pay a state sales tax on your purchases?	N	0	5	3	0
Does your department split orders to avoid higher approval levels or to bypass limits, (i.e. Pcard limits or bidding levels)?	N	0	8	0	0
<b>K. PROCUREMENT OF GOODS AND SERVICES TOTAL</b>		<b>21</b>	<b>19</b>	<b>5</b>	<b>3</b>

<b>L. RECORDS RETENTION</b>					
Does your department have a copy of the appropriate records retention policy for your area?	Y	6	1	0	1
Are important documents, including electronic media, stored in a secure area with adequate protection from fire and/or water damage?	Y	5	1	0	2
<b>L. RECORDS RETENTION TOTAL</b>		<b>11</b>	<b>2</b>	<b>0</b>	<b>3</b>

<b>M. INVENTORY CONTROL</b>					
Are inventory items maintained in a secure location?	Y	4	0	0	4
Is there adequate protection from fire and water?	Y	3	1	0	4
Is inventory well organized?	Y	4	0	0	4
Is flammable material stored according to code in a special fireproof cabinet and kept in an isolated location?	Y	3	0	0	5
Are any controlled substances stored and dispensed according to Drug Enforcement Agency (DEA) regulations?	Y	0	1	0	7

**2.0 Audit Process**

Are receiving documents matched to purchase orders and invoices?	Y	3	0	0	5
Are all materials received counted and inspected prior to entry on storeroom/inventory records?	Y	3	0	0	5
Are back-ordered items properly followed up on to ensure timely receipt of items ordered?	Y	2	1	0	5
Are inventory records maintained based on periodic physical counts or a perpetual system?	Y	1	2	0	5
Have formal procedures been established for reviewing and disposing obsolete and slow-moving inventory items?	Y	0	2	0	6
Are there currently any items in stock that are obsolete or slow moving?	N	1	1	1	5
Is a physical inventory conducted at least annually?	Y	2	1	1	4
Are items physically counted matched against inventory records?	Y	2	1	1	4
Has a cycle counting program been considered?	Y	1	2	1	4
Are inventory records adjusted immediately based on the results of a physical inventory or cycle counting program?	Y	2	1	1	4
Do individuals independent of inventory custody investigate unusually large discrepancies, between inventory records and physical counts?	Y	1	2	1	4
Is any inventory stored or consigned at an outside location?	Y	0	3	1	4
<b>M. INVENTORY CONTROL TOTAL</b>		<b>32</b>	<b>18</b>	<b>7</b>	<b>79</b>

<b>N. BUILDING SAFETY &amp; SECURITY</b>					
Have all concerns about the safety of the building(s) been brought to the attention of the individual or group responsible for building safety (e.g. lack of building exit routes, trained safety monitors, regular evacuation drills)?	Y	6	0	1	1
<b>N. BUILDING SAFETY &amp; SECURITY TOTAL</b>		<b>6</b>	<b>0</b>	<b>1</b>	<b>1</b>

<b>O. COMPLIANCE WITH FEDERAL AND STATE GOVERNMENTAL REGULATIONS</b>					
Do you believe that department personnel are sufficiently informed about important federal and state laws and regulations that govern activities performed within your department?	Y	6	1	1	0
Please answer for each of the following that applies: Does your department participate in activities that are governed by:					

**2.0 Audit Process**

• Occupational Safety and Health (OSHA)	N	3	4	0	1
• Environmental Protection Agency (EPA)	N	1	4	1	1
• UG Federally Funded Research	N	3	4	1	0
• IRS	N	4	4	0	0
• HIPAA	N	1	5	1	0
		0	0	0	0
<b>If you answered 'YES' for OSHA</b>					
Have employees been trained for workplace safety by the Environmental Health & Safety Office (EH&S) to comply with the appropriate regulatory requirements for their job responsibilities?	Y	5	0	0	3
Does your department have a policy of conducting (or requesting) periodic walk-through inspections of workspaces to identify and correct any unsafe or potentially hazardous conditions and work practices that could result in OSHA violations in consultation with the Office of Risk Management?	Y	3	3	0	2
		0	0	0	0
<b>If you answered 'YES' for EPA</b>					
Has the EH&S notified your department about how to avoid hazards in the handling of hazardous materials and emergency response procedures?	Y	2	0	0	0
Does your department, research or teaching labs perform any activities using bio-hazardous agents, hazardous chemicals or radioactive material?	Y	2	0	0	0
If so, are they properly labeled and stored?	Y	2	0	0	0
Do you believe that adequate security exists over access to any bio-hazardous, radioactive or other hazardous materials?	Y	1	0	1	0
Has all hazardous waste been stored and disposed of in accordance with federal regulations and College/University policy as managed by EH&S?	Y	2	0	0	0
Do all individuals working with radioactive materials wear monitoring badges?	Y	0	0	1	1
Do you know of any teaching or research labs within your college that might represent a health or safety risk due to poor housekeeping practices?	N	0	1	1	0
Do individuals in your teaching and research labs know how to correctly respond to a hazardous spill or chemical release?	Y	1	0	1	0
Are you aware of any violations of any existing hazardous materials storage laws or documentation requirements for using such materials?	N	0	2	0	0

**2.0 Audit Process**

<b>If you answered 'YES' for Uniform Guidance Federally Funded Programs</b>					
		0	0	0	0
Are all grant proposals reviewed and approved by the appropriate programmatic Dean, Dean of Administration and President's Office before they are submitted to granting agencies?	Y	3	0	0	1
Are the Forms A, B & C completed in a timely manner for each grant and submitted to the Office of the Chancellor as per Policy 408?	Y	3	0	0	1
Do you believe that your department's principal investigators (PIs) and project directors are sufficiently familiar with Uniform Guidance cost principles governing allowable costs and activities?	Y	2	1	0	1
Do you believe that your department's principal investigators and project directors are sufficiently familiar with VSC guidelines for charging administrative or clerical salaries and other administrative costs to federal grants and contracts?	Y	2	1	0	1
Do you believe that principal investigators require additional training concerning effort reporting requirements to ensure that salaries charged to federal grants and contracts properly reflect the time and effort directed to the grant or contract activities?	N	2	1	0	1
Do you know of instances where principal investigators are not signing off on Quarterly Time & Effort Reports for those individuals who work on their grants and contracts?	N	1	2	0	1
Do you believe that principal investigators and project directors require additional training concerning VSC' policies and procedures regarding purchasing, procurement card usage, capital equipment requests, and travel and business expense reimbursement as they relate to charging federal grants and contracts?	N	3	0	0	1
<b>If you answered 'YES' to IRS</b>					
Is your head department administrator sufficiently familiar with federal and state tax regulations that pertain to department operations (e.g., HR - federal employment taxes, social security, COBRA, foreign students, pension requirements; check writing/AP functions - independent contractors, abandoned property and sales tax)?	Y	4	0	0	1

**2.0 Audit Process**

Has department management contacted the System Controller at the Office of the Chancellor with any questions regarding potential tax liabilities?	Y	2	0	1	2
<b>If you answered 'YES' to HIPAA</b>					
Does your department retain medical records for faculty, staff or students?	N	1	1	0	0
Does your department maintain any confidential employee/student records that require special treatment for privacy protection?	N	1	1	0	0
Do you believe that refresher HIPAA training would benefit individuals responsible for providing treatment or maintaining confidential medical records?	Y	1	0	0	1
<b>O. COMPLIANCE WITH FEDERAL AND STATE GOVERNMENTAL REGULATIONS OVERALL TOTAL</b>		<b>61</b>	<b>35</b>	<b>9</b>	<b>19</b>

## *2. Vermont State College Policies*

### **VERMONT STATE COLLEGES POLICY 423**

#### **CREDIT CARD/PURCHASING CARD POLICY**

POLICY Number 423

Date 5/26/16

**PURPOSE:** The VSC Credit Card policy is designed to efficiently and effectively manage both VSC cash flow and authorized business related expense while complying with all other VSC policies and regulations.

**STATEMENT OF POLICY:** This policy applies to all VSC personnel that are issued either a credit card or procurement card for job-related expenses. Cards shall be issued to an individual employee but not to an office, department or group. The employee listed on the card has sole responsibility for the control and use of the card, subject to oversight and supervision by the VSC.

#### **I. GENERAL POLICY PROVISIONS**

- a. An eligible employee is an employee who is authorized by his or her immediate supervisor to purchase supplies or services or travel on college business.
- b. An eligible employee shall complete all required applications and agree to all conditions imposed by the issuing credit card company.
- c. If a credit card/purchasing card is to be used in conjunction with a grant then the grant requirements supersede this policy where in conflict therewith. Only the named cardholder is authorized to use the card for transactions unless such usage is under direction of named cardholder. Usage by other personnel is strictly prohibited.
- d. Where the VSC has approved preferred vendor contracts, purchases must be made from those contracted suppliers.
- e. The cardholder shall immediately notify the issuing credit card company, the Dean of Administration and the immediate supervisor when a card is lost or stolen.
- f. The cardholder will immediately surrender the credit card to the Dean of Administration upon request by the Dean or termination of employment at the college.

#### **II. PURCHASES**

Credit cards or Procurement Cards may be used only for authorized purchases within applicable institutional and VSC policy. Cards may not be used for personal purchases, personnel services or cash advances.

#### **III. VSC PROCUREMENT CARD**

When using a VSC procurement card it is the responsibility of the cardholder to know and follow both this policy as well as the procurement card program manual.

**IV. MONTHLY AUTHORIZATION PROCESS**

- a. All charges on the employee's monthly credit or purchase card statement shall be verified by the employee as representing proper and legitimate job-related expenses.
- b. All charges over \$25 on the monthly statement shall be supported by proper receipts, showing the nature, date and amount of expenditure.
- c. Generally, receipts under \$25 will not be required to be submitted with expense reports. However, a supervisor may, at his or her discretion, in advance of card use, require all receipts to be submitted. Monthly statements with necessary receipts attached shall be signed by the cardholder and then forwarded to his/her immediate supervisor for review and signed approval in accordance with written procedures.
- d. The properly authorized monthly statement shall be forwarded to accounts payable for processing

**V. AUDIT REVIEW OF CARDHOLDER ACTIVITY**

All cardholder activity is subject to review by appropriate administrators, the VSC's internal and external auditors.

**VI. COMPLIANCE**

Any failure to comply with this policy may result in the suspension or termination from the credit card program and also may include disciplinary actions up to and including termination in accordance with the terms of any applicable handbook or collective bargaining agreement. Any activity or expense related to federal grants or contracts must comply with 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, in addition to the provisions above.

Additionally, the VSC policy includes a detailed P-Card Program Manual accessible at:  
<https://www.vsc.edu/wp-content/uploads/2016/10/Policy-423-P-Card-Program-Manual.pdf>

## **2.0 AUDIT PROCESS**

## **2.0 AUDIT PROCESS**

### **2.1 Method of Internal Audit**

- Utilize self-assessment questionnaires that were completed in December 2018, review of relevant VSC or college policies and procedures, and conduct interviews with personnel regarding current practices in the Procurement Card Program.
- Select samples of p-card expense reports and determine compliance with established policies, procedures, regulations and industry best practices.
- Provide guidance and written recommendations to management that will assist in the improvement of the internal control structure for the Procurement Card Program.

### **2.2 Procedures**

#### ***1. Procurement Cards (P-cards)***

The following procedures should be performed to cover the proposed scope:

- a. Review of the VSC Policy and Procurement Card Manual for a thorough understanding of the policy and procedures governing the p-card program.
- b. Hold discussions with Controllers, Facility Directors, and Admissions staff to understand the process and procedures utilized by each department for the areas in scope.
- c. For each “in scope” area, identify the key risks and mitigating controls in place. Evaluate the design and effectiveness of controls.
- d. By obtaining documentation, and through the performance of non-statistical sample testing, evaluate the effectiveness of internal controls regarding p-cards. Audit testing should include selecting a non-statistical sample of the following:
  - i. P-cards utilized for expenditures in FY19
  - ii. P-card expense report submissions

### **2.3 Roles and Responsibilities**

*Audit Team (name, role, title,)*

- Sharron Scott, Audit Manager, Dean of Administration, Northern Vermont University
- Sheilah M. Evans, Audit Supervisor, System Controller/Sr Dir of Fin Ops, Office of the Chancellor
- Brenda Flint, Audit Senior, Dir of Business Services, Office of the Chancellor
- Accounting Student Interns, Audit Staff, Northern Vermont University

*Internal Stakeholder(s)*

- Board of Trustees
- Chancellor and Presidents
- Deans of Administration

**2.4 Schedule**

*Milestones*

<u>Activity</u>	<u>Estimated Completion Date</u>
Completion of audit plan	2/11/19
Complete audit fieldwork	3/27/19
Report to management for comment	4/8/19
Comments back from management	4/15/19
Final report issuance	4/22/19
Vermont State College Audit Committee Review	4/29/19

*Total Estimated Staff Hours:*

180

## **3.0 EVALUATION**

### 3.0 EVALUATION

#### 3.1 Metrics

## DESIGN MATRIX (Procurement Card (P-Card) Program)

Objectives	Information Required and Source(s)	Scope and Methodology	Limitations	What This Analysis Will Likely Say
<p><b>What are the objectives the audit is trying to address?</b></p>	<p><b>What information is needed to address the objective? From where will this information be received?</b></p>	<p><b>How will each objective be addressed?</b></p>	<p><b>What are the designs limitations and how will it affect the audit?</b></p>	<p><b>What are the expected results of the work?</b></p>
<p>To determine if the colleges have appropriate policies and procedures involving the procurement card program that comply with VSC Board Policy, industry regulations and best practices.</p> <p>The plan is to review the internal controls involving p-cards and assess the extent that these controls are proper and working as intended.</p>	<p>The most recent FY19 VSC Self-Assessment of Internal Control for each college will be reviewed.</p> <p>We will obtain policy and procedure documentation from each college.</p> <p>We will interview/hold discussions with VSC personnel.</p> <p>We will obtain a sampling of p-card expense reports.</p>	<p>We will use inquiry and review of selected documents in scope to ensure compliance and adequacy of internal controls involving the procurement card program.</p> <p>We will select a sample of p-card expense reports. In selecting the sample, we will consider the number and nature of transactions, the amounts, as well as the level of oversight of the process.</p> <p>We will obtain the necessary documents to support good internal controls around general operations in regards to the procurement card program.</p> <p>We will conduct interviews and walkthroughs with college staffs relevant to our audit objectives.</p>	<p>Our sample will not allow us to make any statements about p-cards as a whole.</p> <p>A portion of our audit will use inquiry as our testing method; therefore, we will rely on personnel's responses, which is not the most reliable form of supporting documentation.</p>	<p>The audit will be able to report whether or not the internal controls and policies/procedures are functioning properly as designed.</p> <p>The VSC will have current written documentation of the policies and procedures at the colleges and be able to identify and implement "best practices" to achieve more consistency and compliance across all VSC colleges.</p> <p>Recommendations will be provided to assist in minimizing fraud risk.</p>

## 2. Review Summary of Whistleblower reports

Excerpts taken from “Board Briefing: Whistleblowing and corporate governance”, Chartered Institute of Internal Auditors, June 19, 2017.

### Whistleblowing and Corporate Governance

- Whistleblowing is an essential safety valve, an important element in a healthy corporate culture, and should be part of the internal control environment.
- Whistleblowing procedures should encourage individuals to disclose concerns using appropriate channels before these concerns become a serious problem, thus avoiding reputational damage through negative publicity, regulatory investigation, fines and/or compensation.
- Boards need to consider the effectiveness of whistleblowing policies and procedures on a regular basis as part of their oversight of the system of internal control.

### Key issues for Boards / Audit Committees

While the responsibility for establishing and operating effective internal whistleblowing procedures lies with...*management*..., boards should maintain oversight and require independent assurance that the organization's whistleblowing policies and procedures are effective in achieving the appropriate outcomes.

## 3. Discuss Disaster Recovery Planning

The goal of a Disaster Recovery & Business Continuity Plan is to facilitate the process by which an organization is able to recover and restore critical business processes after a disaster or business disruption has been declared. Organizations should prepare for incidents that could disrupt key business processes for extended periods. Lack of preparedness can expose an organization to a degree of risk that can be detrimental.

I have attached an article by Deloitte that speaks to the Audit Committee’s role in Disaster Recovery Planning. Although it is from 2015, and with a focus on the UK, it is still very relevant and addresses the key elements the Audit Committee should be considering in regards to this important topic.

Additionally, I have provided a brief report from IT/Finance as it relates to the current status of Disaster Recovery Planning.



# The Audit Committee's role in Disaster Recovery, Crisis Management and Resilience



This paper looks at the Audit Committee’s role in Disaster Recovery, Crisis Management and Resilience. It considers some of the potential limitations of current risk management, the nature and frequency of corporate crises and the critical role an Audit Committee can provide in the effective governance before, during and after such events.

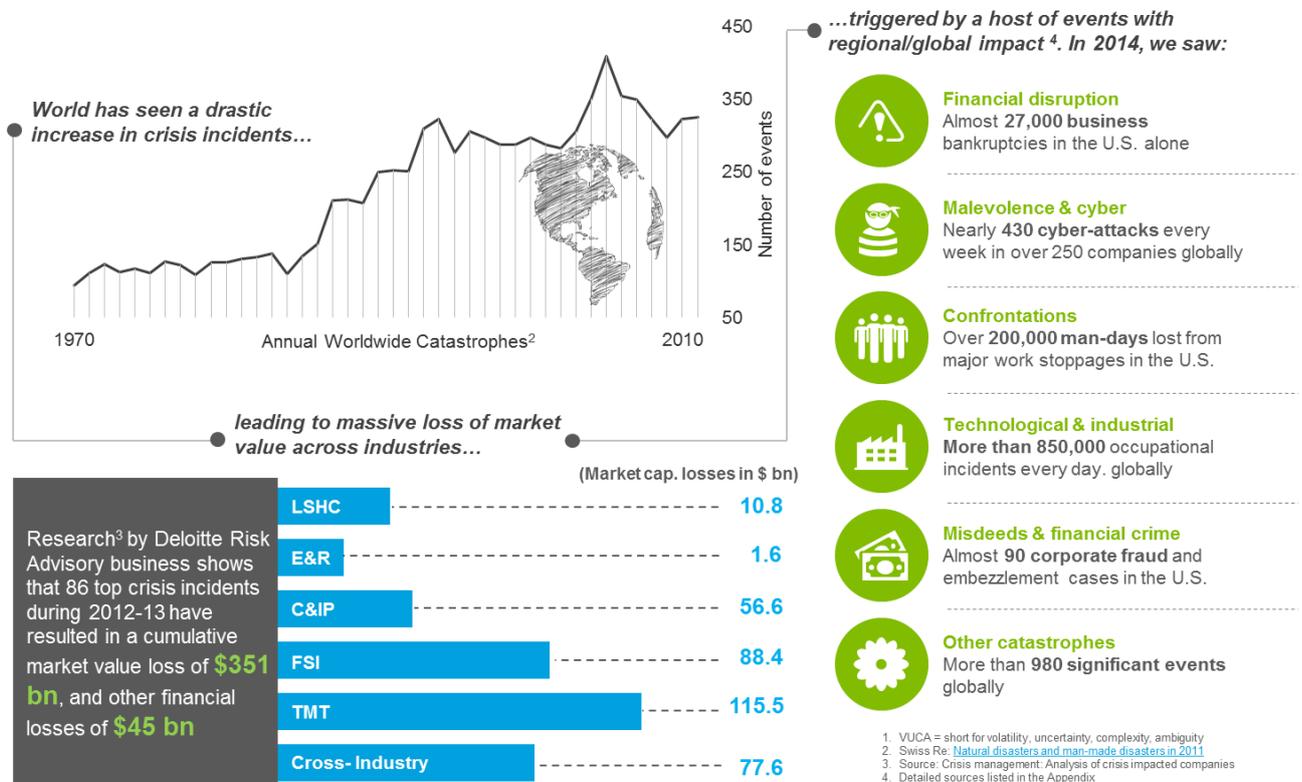
**With respect to the Audit Committee’s role in Disaster Recovery, Crisis Management and Resilience, there are three main aspects to consider:**

- Its role in seeking assurance over these areas and how it achieves this;
- Its role in supporting the Board in monitoring risk management and internal controls; and
- Its role in respect of the UK Corporate Governance Code, the Principal Risks and longer term Viability Statement.

**The relationship between Risk Management, Disaster Recovery, Crisis Management and Resilience**

The dynamic, global business environment has led to larger and more frequent crisis events. Risk management processes are often failing to identify or adequately consider an organisation’s readiness to deal with such events.

In part, this is because Disaster Recovery (or business continuity), Crisis Management and Resilience are not always closely integrated with the risk management process or function. As a result they often operate in a narrowly defined context and lack agility in dealing with rapidly emerging risks, leaving organisations exposed to ‘real-world’ events.



Recently, the term Resilience (usually prefixed with other words such as: Operational, Technology or Cyber) has come into increasing use, though often with little clarity or understanding on what is meant by it. At the end of 2014, the British Standards Institution published a new guidance Standard, BS 65000 – Organisational Resilience, which has attempted to define the term and the principles and attributes associated with it. In essence this Standard calls for much closer integration and alignment of Risk Management, Disaster Recovery, Crisis Management and other 'protective disciplines' such as Security.

A key principle of Resilience is the ability to anticipate & assess, protect & control, plan & prepare, and respond & recover in the context of major disruptive or catastrophic risks, whether they are internal or external, known or unknown, in addition to the ability to adapt & reform in the light of longer-term strategic risks such as climate change or changing markets. This provides a more holistic view of the management and mitigation of high impact risks than is commonly adopted.



Developing increased resilience to strategic impact risks or improving 'Risk Resilience' requires risk management, disaster recovery and other disciplines to work together.

The Audit Committee should consider:

- Whether risk management and other 'risk resilience' related functions are aligned/integrated, and the extent to which 'risk resilience' is being governed and addressed holistically
- How major disruptive or catastrophic risks are identified and assessed, for example, the effectiveness of horizon scanning for external risks, scenario analysis and near-miss reporting, as well

as the organisations willingness to 'think the unthinkable'

- The time horizon over which major disruptive or catastrophic risks are considered
- Whether the scope of risks or scenarios addressed under disaster recovery and crisis management is appropriate
- The robustness of resilience to/planning for major disruption and catastrophic risks (both internally caused and external)
- The extent to which internal audit or external expertise is able/required to provide assurance on the above

### Effective Crisis Management is critical now

It is specifically worth considering the importance of effective crisis management in dealing with extraordinary situations, since failure to respond well leads to rapid and prolonged reputational damage/value loss, as illustrated below.



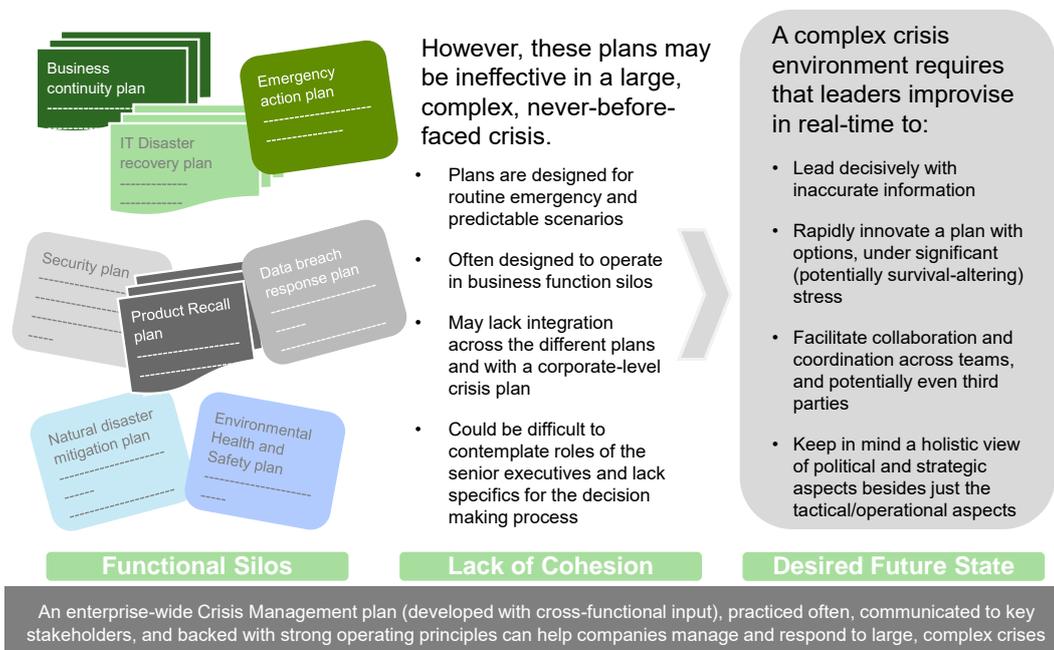
Research from 15 high-profile crises focused on the impact on shareholder value following the crisis

“Reputation Review” (Oxford Metrica and Aon, 2012)

Effective response is about much more than just media, customer and employee communications, vital though these are. It is also about rapidly establishing a highly responsive and adaptive organisation and operating mode, deploying the necessary resources, coordinating effectively across all areas of the business and decision making in a situation which will have a high degree of ambiguity, where there is a lack of information and considerable time pressures.

None of this comes easily, and certainly not without preparation and rehearsal. A well-prepared organisation may have multiple action plans to address the wide range of risks that they face

Crisis communications is a particularly challenging and important area. With the global and pervasive availability of mobile technology, information power has shifted from organisations to consumers. This means in dealing with a crisis, organisations must move with speed, full transparency and empathy. It must communicate at many levels, internally and externally and it should seek to use all channels effectively, including social media.



## Executives express confidence in their crisis preparedness

Our own very recent survey (not yet published), conducted by Forbes Insight of over 300 Board members indicates that:

- A solid majority (75%) of board-members surveyed express confidence in their organisations crisis preparedness.
- However, the study also indicated that this confidence is not often backed up by tangible EVIDENCE over what the organisation has actually put in place to be crisis ready.
- Further, there appears to be a significant vulnerability vs planning gap, with many seeing clear vulnerabilities, but far fewer having undertaken robust preparations for them.

These findings, and the points made earlier in this paper, indicate that enhanced governance in this area is necessary. The following sections provide some thoughts on this and the role of the Board and Audit Committee.

## The Board and the Audit Committee has two main roles relating to Crisis Management

### *Under normal business conditions*

To ensure that the organisation, including the executive team and Board members are ready to deal with a crisis; the Audit Committee should be seeking this assurance through its oversight of internal audit and related activities on behalf of the Board.

As '**guardians of reputation**' the Audit Committee should ensure that the organisation has a robust crisis communications strategy that engages customers, employees and other stakeholders as part of the organisation's crisis planning and preparations.

### *During and immediately after crisis*

To act in a crisis (often in support of the Executive team, though at times this may include replacing or standing in for key Executives) and to ensure lessons are learnt after the crisis; the Audit Committee members may have

key roles to play as part of the Board or Executive, and the Audit Committee should ensure that independent investigations and reviews post-event are undertaken where appropriate.

## The Audit Committee should ask ....

### *Under normal business conditions*

- Do we have a Crisis Management Plan, with clear roles and responsibilities, and who in the Executive team is responsible for it?
- Have our Executive Management Team been adequately trained and have they taken part in crisis simulation rehearsals; when was the last time they did so?
- Is there a Crisis Plan for the Board and have key Board members taken part in crisis simulation rehearsals?
- Is there a robust crisis communications plan and has this been '*stress tested*' through crisis simulation rehearsals, including the how and by whom?
- What's our perception of the organisation's vulnerabilities and key risks and our confidence in our preparedness to deal with such events should they arise?
- Has our Crisis Management capability been subject to internal audit or external validation?

### *During and immediately after a crisis*

- Is it clear which members of the Board will be responsible for what during a crisis?
- Is the organisation communicating appropriately and transparently to all stakeholders?
- Do we know who we would call upon to support the Board and are arrangements to do this already in place?
- As a matter of course, do we demand an independent review in the wake of a crisis such that lessons may be learned and improvements made in the spirit of full transparency?

## FRC and the Updated Code of Practice

The updated code requires a robust assessment of principal risks. This includes:

- Identifying the principal risks, evaluating their likelihood and their impact should they materialise
- Assessing the availability and likely effectiveness of actions they might take, either in advance or when a trigger event occurs, to avoid or reduce the impact
- Be aware of those risks (or combination of risks) that could seriously affect the future performance, solvency or liquidity of the company

It also requires a Viability Statement, which should take account of the organisation's principal risks. This should consider:

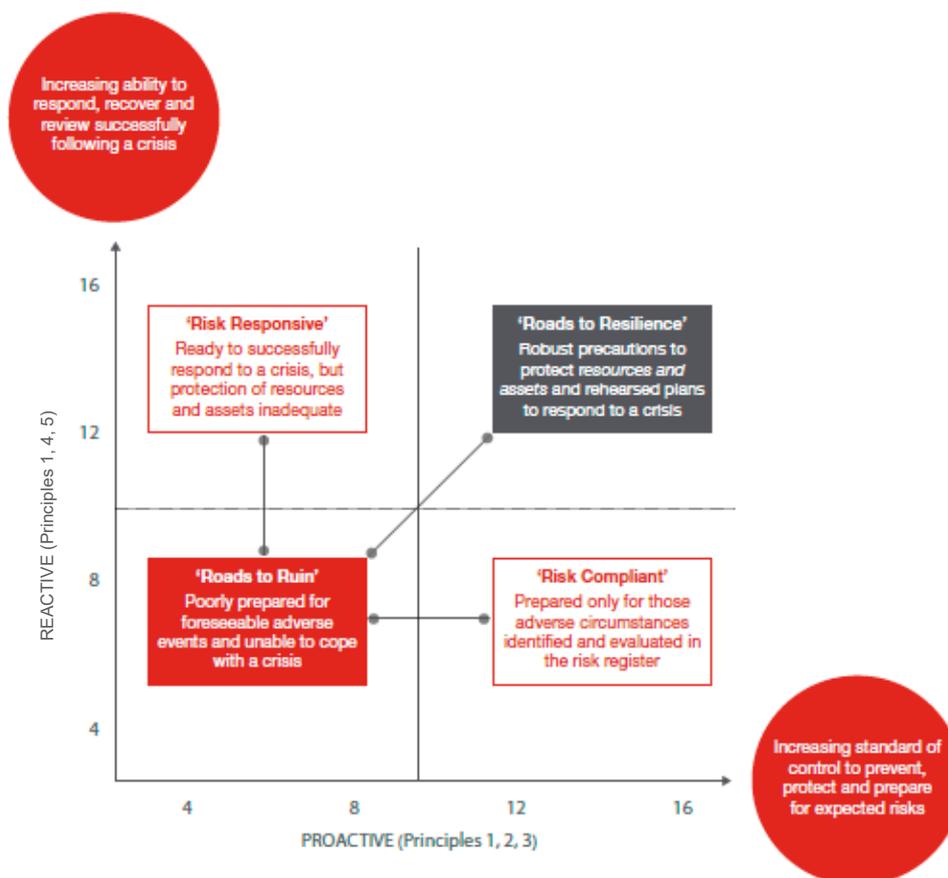
- The timeframe over which such risks should be considered – certainly greater than 12months
- Scenario analysis and modelling of such risks, individually and in aggregate

Many of the points discussed above will contribute to this assessment of Principle Risks and the preparation of the Viability Statement.



## In summary

- There is growing acceptance that major disruption and catastrophic risks, often unforeseen, are leaving organisations vulnerable and poorly prepared to respond
- Risk management processes are often failing to either anticipate such risks or ensure the organisation, including the executive management team and the Board, is adequately prepared
- Disaster recovery, crisis management and resilience arrangements have also been found wanting because they have been too narrowly defined and lack agility in dealing with real-world situations
- The pervasive use of mobile technology has dramatically changed the speed at which organisations need to be able to organise and respond to a crisis situation – this is making pre-planning and preparation more essential than ever
- The Audit Committee should seek assurance over the organisation's *Risk Resilience* and *Crisis Readiness*.



“The Changing World of Risk” (AIRMIC, 2015)

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# INFORMATION TECHNOLOGY Disaster Recovery Plan Goals and Objectives



# Reliance on Technology

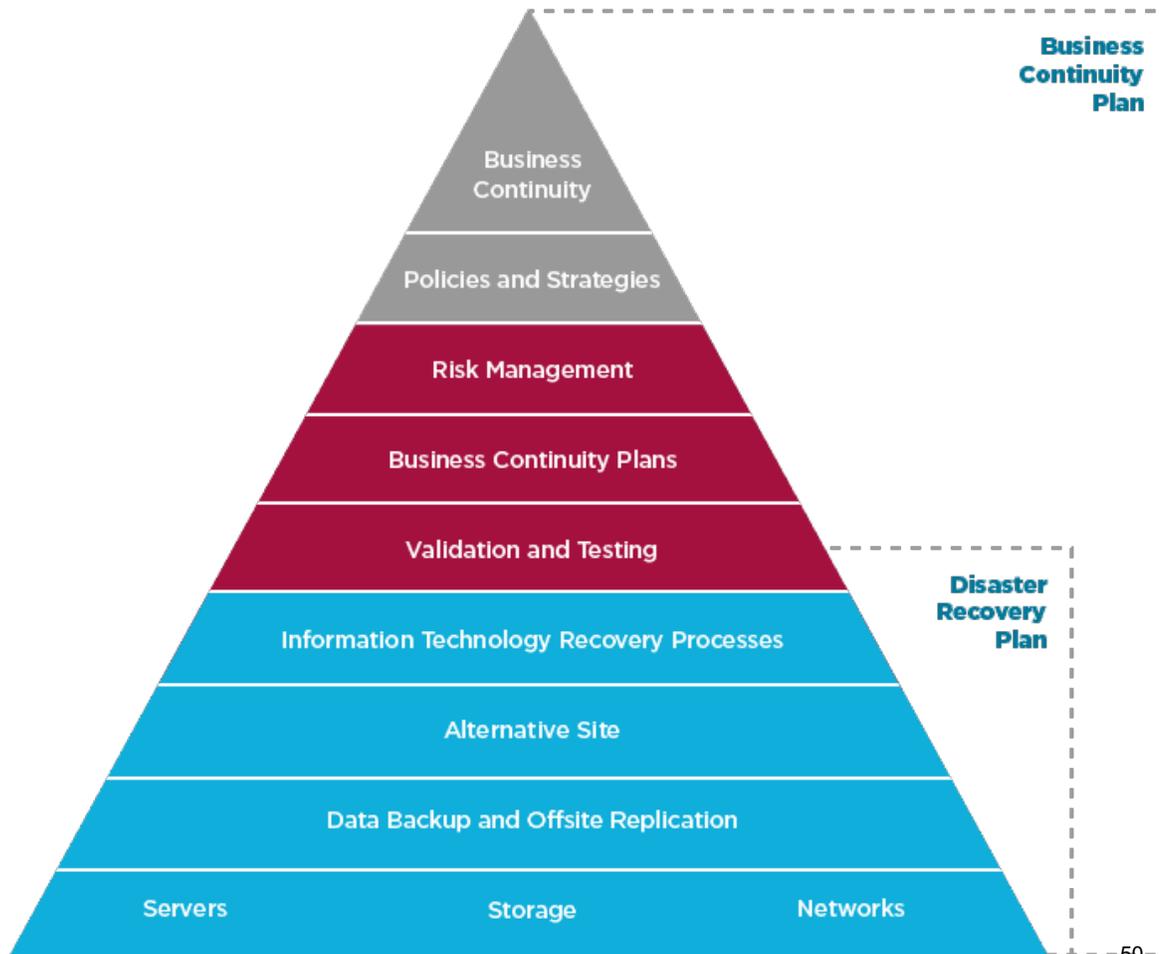
- Increasing dependencies on electronic capabilities to do our jobs has shortened the acceptable recovery timeframe for a system outage.

## Criticality Levels (Expected System Recovery Times)

- Category I      Must be up in hours                      (Colleague)
- Category II     Must be up in days                              (TouchNet)
- Category III    Must be up in weeks
- Category IV    Can wait till operations are normal

# Disaster Recovery is Foundational to Business Continuity Planning

February 11, 2019



The foundation of Business Continuity today is dependent on technology planning for rapid recovery from an outage

# Steps taken since 2011 to reduce downtime

- Network(s)
  - Redundant paths to all areas of business service
- Servers
  - Our main data center is located in South Burlington at TechVault, a hardened facility
- Our ERP System, Colleague, now rides on top of a SQL database
  - SQL allows us to access a data copy directly if Colleague is not available
- Alternate Site
  - We replicate data to servers in Winooski
- We are building a new Technology Disaster Plan – working with students from VTC - to be completed in summer 2019
- Security is a top priority

# Software as a Service (SaaS)

- We have made the decision to look at SaaS for our future software needs. SaaS systems that meet disaster specifications with contractual agreements that limit downtime and shorten recovery times will allow us to keep critical systems up and reduce business continuity stress.
- To date we have moved, or are in the process of moving, the following systems to SaaS
  - Library System
  - Identity Management System
  - Learning Management System
  - HR/Payroll System
  - Admissions (Slate)
- We are investigating the relocation of Colleague to Saas