



SOUTHWEST VIRGINIA HIGHER EDUCATION CENTER

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2025

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 21, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

David Matlock
Executive Director, Southwest Virginia Higher Education Center

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Southwest Virginia Higher Education Center** (Higher Education Center). We completed the review on July 29, 2025. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Higher Education Center is responsible for establishing and maintaining an effective control environment.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for the Higher Education Center. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency's corrective action for all prior review findings. The agency has taken adequate corrective action with respect to review findings reported in the prior review that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment for the Higher Education Center. Further, we evaluated the Higher Education Center's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; expenses; capital assets; grants management; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- **Repeat (First Reported in 2019)** – The Higher Education Center has not updated its disaster recovery plan since March 2017. The Commonwealth's Information Security Standard, SEC530 (Security Standard) requires agencies to test or reassess disaster recovery plans at least on an annual basis. The Higher Education Center is currently updating its disaster recovery plan and should plan to update it regularly going forward to ensure compliance with the Security Standard.
- **Repeat (First Reported in 2019)** – The Higher Education Center outsources multiple controls to other agencies such as the University of Virginia (University), Virginia Information Technologies Agency (VITA), Payroll Service Bureau, and Department of Human Resource Management; however, there are significant controls and review and approval processes that the Higher Education Center must perform. Even though the Higher Education Center outsources some significant controls, they are responsible for ensuring the information is accurate and reasonable. We noted a lack of documentation of the Higher Education Center's

oversight of several outsourced areas. The Higher Education Center should ensure staff have a proper understanding of the outsourced areas and that adequate controls are in place to follow the Higher Education Center's responsibilities in the memorandum of understanding with third party providers and document the tasks staff perform in oversight of the outsourced services.

- **Repeat (First Reported in 2019)** – The Higher Education Center has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where Higher Education Center should develop, review, or improve policies and procedures to maintain an effective control environment. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual require each agency to “publish its own policies and procedures documents, approved in writing by agency management.” Management should continue to ensure detailed policies and procedures exist for all critical business areas. In addition, management should continue to develop a process to review and approve all policies and procedures either annually or as needed and retain documentation of the process.
- The Higher Education Center did not obtain the System and Organization Controls (SOC) report for providers that provide hosting services for a system. As such, the Higher Education Center did not document an evaluation of the SOC report and the complimentary user entity controls described within the report. CAPP Manual Topic 10305 and the Security Standard require agencies to have an adequate level of interaction with third-party providers to give agencies an understanding of the providers' internal control environments and any complementary controls the agency would need to implement. Agencies must also maintain oversight of the provider to gain assurance over outsourced operations. The Higher Education Center should develop policies and procedures over review of SOC reports and obtain and comprehensively evaluate SOC reports timely.
- The Higher Education Center did not log and monitor system audit reports for its information systems as required by the Security Standard. The Higher Education Center should document and implement the appropriate logging and monitoring controls for its business environment to reduce the risk to data confidentiality, integrity, and availability.
- The Higher Education Center did not have a security audit performed over its sensitive information systems at least once every three years as required by the Security Standard. The Higher Education Center currently has a Memorandum of Understanding (MOU) with VITA; however, the MOU does not outline the responsibility of VITA to perform audits over the Higher Education Center's sensitive information systems. Management should update the MOU with VITA to include the performance of information technology security audits or otherwise perform security audits over all sensitive systems at least once every three years.

- The Higher Education Center did not ensure that all significant processes outsourced to the University are included in the MOU between the two entities. During our review, we noted several areas that the University is responsible for completing on the Higher Education Center's behalf, which the MOU did not cover. The Higher Education Center relies on the University to perform most of its financial functions based on the MOU established between the two entities. The two parties last updated the MOU in 2022, and it does not clearly define the responsibilities of both parties. The Higher Education Center should maintain an up-to-date MOU to ensure there are clearly defined responsibilities for both parties in all areas covered by the MOU.
- The Higher Education Center did not remove system access within 24 hours of termination for two out of two (100%) employees tested, as required by the Security Standard. The Higher Education Center references this requirement within its Employee and Tenant Offboarding Procedure document. Management should ensure that Security Standard requirements are adhered to when removing separated employee system access.
- The Higher Education Center and the University did not properly account for subscription-based information technology arrangements (SBITAs) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 96. The Higher Education Center does not have an established process for identification of SBITAs. CAPP Manual Topic 31300, which references GASB Statement No 96, requires agencies to determine and record the necessary accounting information in the Commonwealth's lease accounting system based on the contract to ensure proper classification of long-term and short-term SBITAs, and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Higher Education Center management should communicate with the University to determine who is responsible for identifying, tracking, recording, and reporting SBITAs and ensure the proper tracking and reporting occurs.
- The Higher Education Center did not properly account for lessor leases in accordance with GASB Statement No. 87. The Higher Education Center does not have a process for tracking and recording lessor leases. In addition, the Higher Education Center did not report any lease receivables within its attachment submission to Accounts. CAPP Manual Topic 31200, which references GASB Statement No. 87, requires agencies to properly identify and record leases to ensure proper classification of leases as long-term and short-term; and to evaluate explicit, implicit, and incremental borrowing rates before resorting to using the prime rate for a reasonable and accurate interest rate. Management should update lessor processes and ensure it properly tracks, reports, and classifies lessor leases. In addition, the Higher Education Center should ensure the University is accurately reporting lessor leases on its behalf.

- The Higher Education Center did not meet the minimum requirements set by the Accounts ARMICS standards and CAPP Manual Topic 10305. The Higher Education Center conducts surveys and documents practices performed but does not properly complete the assessment of risk and testing for some of the minimum requirements. The Higher Education Center should develop and implement processes that ensure ARMICS assessments meet the minimum requirements issued by Accounts.
- The Higher Education Center did not provide supporting documentation showing it completed the off-boarding checklist for two separated employees reviewed. The Higher Education Center should complete and retain separated employee off-boarding checklists.

We discussed these matters with management on August 7, 2025. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether it adequately addresses the issues in this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Sincerely,

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JDE\vks

December 17, 2025

Staci A. Henshaw, CPA
Auditor of Public Accounts, Commonwealth of Virginia
PO Box 1295
Richmond, VA 23218

Dear Ms. Henshaw:

The Southwest Virginia Higher Education Center has reviewed the results of the Internal Control Questionnaire Review that was recently conducted by APA.

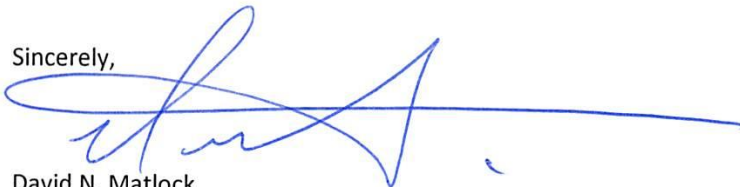
We appreciate the opportunity to strengthen controls to maintain an effective control environment and we are pleased to have an opportunity to provide our comments on the review.

The Center acknowledges and concurs with the findings of the review. I will note that the Center has made substantial progress in the areas of information systems security and controls over processes performed on behalf of the Center by other agencies.

We appreciate the assistance of the APA as we work to carry out our mission serving the citizens of Southwest Virginia and the Commonwealth.

Please contact me if I can be of further assistance. Again, I would like to thank you and your staff for the valuable services you provide.

Sincerely,



David N. Matlock
Executive Director and Agency Head
Southwest Virginia Higher Education Center

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