



UNIVERSITY OF MARY WASHINGTON

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

We have audited the basic financial statements of the University of Mary Washington (University) as of and for the year ended June 30, 2021, and issued our report thereon, dated August 30, 2022. Our report, included in the University's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the University's website at www.umw.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Our report also includes a risk alert which recommends that management of the University collaborate with the University of Mary Washington Foundation to ensure timely completion of the Foundation's audit report.

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RISK ALERT

During the course of our audit, we encountered issues that are beyond the corrective action of the University of Mary Washington's (University) management alone and require the action and cooperation of the University of Mary Washington Foundation (Foundation). The following issue represents a risk to the University and the Commonwealth.

The University's financial statements include activity for the University of Mary Washington Foundation as the Foundation is a discretely presented component unit of the University. A separate accounting firm audits the Foundation, and our audit opinion over the University's financial statements as a whole relies on the Foundation auditor's opinion. For the past two years, we have not received the Foundation's audit report until approximately 14 months after fiscal year end. This delay has impacted our ability to issue a timely audit report for the University. The University's reaffirmation of accreditation from the Southern Association of Colleges and Schools is in process, and as a result, the University needs the fiscal year 2022 Foundation audit completed within eight months of fiscal year end. If we do not receive the fiscal year 2022 Foundation audit report within the eight-month period, we will be unable to provide an opinion on the Foundation's portion of the University's financial statements, which could impact the University's compliance with certain principles of accreditation. Management of the University should collaborate with the Foundation to ensure timely completion of the Foundation's audit report.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Accurately Record Intra-Entity Capital Asset Transfers

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The University's Finance Department did not properly record assets purchased from the Foundation in the University's capital asset system. The Finance Department improperly recorded the intra-entity assets by:

- Combining fourteen capital assets into three capital assets;
- Using inaccurate useful lives and acquisition dates;
- Not recording one equipment asset; and
- Recording seven equipment assets as building assets.

Governmental Accounting Standards Board (GASB) Statement No. 48 contains guidance that indicates when an entity purchases or transfers property within a financial reporting entity, including transactions with component units such as foundations, the asset must retain its original cost basis and

cannot be written up or down to the fair market value. Commonwealth Accounting Policies and Procedures Manual Topic 30205 also requires the asset to be recorded at the book value of the transferring entity. Improper recording of capital assets limits the University's ability to account for assets during inventory, perform depreciation calculations, and account for asset disposals.

The University does not have a policy or procedure on how to handle intra-entity asset transfers to meet recording requirements resulting in the University improperly recording the assets in the University's capital asset system. University management should create, communicate, and implement policies and procedures for the procurement and recording of intra-entity capital asset transfers. University management should ensure that all staff involved with acquiring and reporting capital assets understand the requirements for proper recording of assets. In addition, the Finance Department should correct all capital asset records related to the purchase from the Foundation.

Improve Internal Control Over Capital Outlay Procurement and Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The University's Capital Outlay and Procurement Departments lack the proper internal controls to meet the capital outlay procurement and management requirements included in the Commonwealth's Construction and Professional Services Manual (CPSM). Specifically, we noted the following items in relation to a construction contract procured in fiscal year 2021:

- The University did not use the latest published edition of the construction contract. CPSM chapter 7.1.1.1, requires the use of the latest published edition of the capital outlay forms, including the construction contract for capital outlay projects.
- The University did not include the following elements, required by CPSM appendix F 3.5, on the official capital outlay project bid tabulation documentation: bidding firm's Virginia Registration Number, address, telephone, and fax numbers.
- The University did not publicly post the notice of award for the contract in the Commonwealth's purchasing system. CPSM chapter 7.1.2.12, requires public posting of the notice of award in the Commonwealth's purchasing system concurrently with the notice to the contractor.

Furthermore, the University's Capital Outlay Department project management process lacks sufficient internal controls to comply with the following requirements:

- The Architect and Engineer (A/E) did not properly approve the General Contractor Change Order Estimate Form (GC-1). CPSM appendix K 2.3 requires the A/E, when a mutually agreed price has been determined for a change order, to make their written recommendation for acceptance by signing Form GC-1.

- The Capital Outlay Program Director acts as the contract administrator, University's recommender, project manager, and Capital Outlay Program Director for some projects causing a segregation of duties concern. Consequently, the Capital Outlay Program Director has signed change orders as both the University's recommender and approver. Form CO-11 requires a signature from an Authorized University Representative Recommender and an Authorized University Representative Approver. As a change order is a contract addition, it requires a separate recommender and approver.

Outdated construction contracts increase legal and financial risks for all parties involved and could lead to the University not complying with the latest laws and regulations for its construction projects. Missing identification information on the official bid tabulation form could cause the University to not award the contract to the correct bidding firm. Additionally, not publicly posting the notice of award to the solicited public could result in a lack of transparency and impact whether firms are willing to bid on future projects. The lack of proper A/E approvals could result in unreasonable and potentially fraudulent construction costs. Furthermore, improper segregation of duties increases the risk of improper construction contract procurement, payment, and project management due to error or inappropriate actions.

The University's Capital Outlay Department does not have a sufficient number of staff to ensure proper segregation of duties and proper procurement and management for its numerous capital outlay projects. The University's Capital Outlay Department has only one certified Virginia Construction Contracting Officer who is also the Capital Outlay Program Director. Additionally, the Capital Outlay Department does not have access to upload information into the Commonwealth's purchasing system and the University's Procurement Department overlooked posting the notice of award. Finally, oversight resulted in the University's Capital Outlay Department not using the correct construction contract for one project and obtaining proper A/E approvals.

University management should ensure that the University's Capital Outlay Department has a sufficient number of staff with the appropriate knowledge to properly procure and manage capital outlay projects. The University's Capital Outlay and Procurement Departments should create, communicate, and implement policies and procedures to ensure proper segregation of duties; maintenance of required documentation and approvals; use of proper contracts and forms; and occurrence of necessary public postings for all capital outlay projects. If the University is unable to separate duties, then the University departments should create compensating controls and ensure multiple levels of review and approval to reduce errors and risks. Finally, the University Capital Outlay Department and any University employee involved with capital outlay projects should obtain continuing education as the CPSM requirements can change annually.

Properly Track and Report Leases

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The University's Finance Department did not properly track and report leases. The University uses a manual process to track and report leases in the financial statements and does not have sufficient policies and procedures over this process. Manual processes increase the risk of inconsistency and errors. As a result, the Finance Department improperly evaluated, classified, and reported a capital lease as an operating lease. This misclassification resulted in the University understating capital assets, net of accumulated depreciation, by \$1.4 million and long-term liabilities by \$1.6 million. In addition, the Finance Department did not report future minimum lease payments for five individual years and five-year increments for operating or capital leases and inaccurately reported lease terms and renewal periods.

GASB Statement No. 38 requires reporting and disclosure of all capital leases and noncancelable operating leases in a specific manner, including a requirement to disclose future minimum payments for each of the subsequent five years, and in five-year increments thereafter.

The University's finance department should report leases as required by applicable standards and consider using a lease system to ensure proper evaluation, tracking, and reporting of leases. GASB Statement No. 87 is effective for fiscal year 2022 and will heavily impact lease reporting; therefore, a lease system could reduce the risk of errors in classification and reporting. In addition, the University should create, communicate, and implement detailed policies and procedures over the University's lease system of record.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 30, 2022

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Visitors
University of Mary Washington

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of the University of Mary Washington as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated August 30, 2022. Our report includes a reference to another auditor. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component unit of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Accurately Record Intra-Entity Capital Asset Transfers," "Improve Internal Control Over Capital Outlay Procurement and Management," and "Properly Track and Report Leases," which are described in the section titled "Internal Control Findings and Recommendations," that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The University's Response to Findings

We discussed this report with management at an exit conference held on June 22, 2022. The University's response to the findings identified in our audit is described in the accompanying section titled "University Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JDE/clj

University of Mary Washington

Finance

1301 College Avenue
Fredericksburg, VA 22401-5300

August 30, 2022

Staci Henshaw, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Henshaw,

University of Mary Washington has reviewed the findings and recommendations provided by the Auditor of Public Accounts for fiscal year ended June 30, 2021. The University appreciates the effort and work of the APA and has the following response to the Internal Control and Compliance Matters:

Accurately Record Intra-Entity Capital Asset Transfers

The asset transfer from University of Mary Washington Foundation to the University in fiscal year 2021 was an extraordinary transaction and not standard practice for the University. Finance staff made corrections in fiscal year 2022 to the assets indicated in the finding and notes that impact to the bottom line and net position in fiscal year 2021 would have been immaterial. Procedures have been documented.

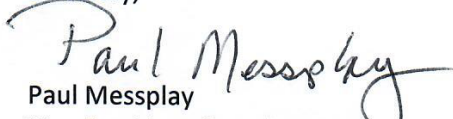
Improve Internal Control Over Capital Outlay Procurement and Management

UMW continues to recruit to fill vacant positions in Capital Outlay. In order to mitigate risk, until positions are filled the Vice President for Administration and Finance is involved in Capital Outlay processes and provides secondary review. Procurement Services and Capital Outlay have collaborated and implemented procedures to ensure proper segregation of duties, maintenance of proper documentation, use of correct forms, and timely award notification.

Properly Track and Report Leases

The University is using the Commonwealth's lease accounting system in fiscal year 2022 to record, track and report leases. Procedures will be developed and documented.

Sincerely,



Paul Messplay
Vice President for Administration and Finance

UNIVERSITY OF MARY WASHINGTON

As of June 30, 2021

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