VIRGINIA COMMUNITY COLLEGE SYSTEM

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2007

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;

- internal control matters that we consider to be significant deficiencies; however, we do not consider any of these to be material weaknesses;

- instances of noncompliance required to be reported that are described fully in the section of the report entitled “Internal Control and Compliance Findings and Recommendations”; and

- adequate corrective action of prior audit findings.

“Internal Control and Compliance Findings and Recommendations” includes several recommendations for the Virginia Community College System to tighten its security over automated information systems.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Physical Security Over Sensitive and Mission-Critical Data

The Virginia Community College System Office does not maintain proper physical security over its Featherstone Data Center, which greatly increases the risk of compromise to the confidentiality, availability, and integrity of its mission-critical systems. The data center stores sensitive data for all 23 Virginia community colleges.

The System Office did not change the combination to the Featherstone server room door until twelve months after an employee with knowledge of the combination terminated. Physical security is an additional layer of access control. If the System Office does not maintain physical access control, then the System Office significantly increases the risk of weakening or compromising all other security measures.

The System Office should include its security requirements for the Featherstone and Greenfield Data Centers in its physical security standard. We recommend that management provide the necessary resources to improve the System Office's physical security over sensitive and mission-critical data and systems. In addition, the System Office should ensure that physical security training is included in its security awareness training program.

Improve and Implement System Configuration Guidelines

The System Office does not properly secure its sensitive Information Technology systems from security vulnerabilities, which increases the risk that sensitive and mission-critical data can be inappropriately accessed or manipulated and violates the principle of least privilege. The Principle of Least Privilege restricts access to any type of information or data to only those individuals that have a need to either use the information or data or have responsibility to ensure its availability.

At the Featherstone Data Center, we found that staff had not taken appropriate actions to secure the UNIX operating systems or restrict its use to only authorized personnel.

- Inappropriate file permissions existed allowing any user to change critical files.
- Improper services permitted transmitting usernames and passwords in clear text.
- An insecure account allows a user to log on without using a password.
- An anonymous account allows the user to remain unidentified.
- Inappropriate password settings allowed users to use the same password indefinitely.
- Insecure startup settings provide hackers the opportunity to gain entry into a system.

In addition, we found that the systems allow remote administration using the system's super user "root" instead of requiring logon at the console. We also found no documentation showing the installation date for current system patches, approval of system patches prior to updating the production servers, and evidence of the annual configurations review. Two community colleges had settings that allowed the storage of passwords on the operating system in clear text, which could severely impact the confidentiality of its data.

The System Office should correct the issues noted above and improve the system configuration guidelines. Management should provide the resources necessary to ensure improvement and implementation of the system configuration guidelines as soon as possible.

Review and Implement System Configuration Guidelines

Applicable to: Piedmont Virginia Community College
Thomas Nelson Community College

Piedmont Virginia and Thomas Nelson Community Colleges do not properly secure their sensitive Information Technology systems, which increases the risk of compromising the confidentiality, integrity, and availability of their mission-critical data. The Colleges enabled an operating system setting, which allowed the storage of passwords in near clear text, which could severely impact the confidentiality of their data.

The System Office provides configuration guidelines for the community colleges, which specifically require the colleges to disable this setting due to the security risk it poses.

Piedmont Virginia and Thomas Nelson should review and follow the System Offices' guidelines for properly setting the operating system configuration. Management should dedicate the necessary resources to ensure that their operating systems are secure as soon as possible.

Properly Complete Employment Eligibility Verification Forms

Applicable to: J. Sargeant Reynolds Community College
Northern Virginia Community College
Thomas Nelson Community College
Tidewater Community College

During fiscal year 2007, J. Sargeant Reynolds, Northern Virginia, Thomas Nelson, and Tidewater Community Colleges did not properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers (M-274). This guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three days of employment to show that they verified the employee's identity and employment eligibility at the point of hiring.

At J. Sargeant Reynolds, in our sample of eleven I-9 forms completed in fiscal year 2007, we noted the following non-compliance:

- three failed to list the issuing authority for the document, and
- ten did not include the date the employee began employment under the certification section.

At Northern Virginia, in our sample of 25 I-9 forms completed in fiscal year 2007, we found five I-9 forms correctly completed. In the remaining 20, we observed the following errors:

- two failed to sign and date Section 2 within three business days of when the employee began employment;
- three failed to provide an expiration date or issuing authority on at least one identification source;
- eleven failed to provide a date under the certification section;
- three failed to provide a date on at least one identification source;
- two failed to date section 1;
- two failed to provide issuing authority for at least one identification source;
- two failed to provide document title or expiration date; and
- two failed to complete Section 2 and did not date the signature area to state when the employee began employment.

At Thomas Nelson, in our sample of fourteen I-9 forms completed during fiscal year 2007, we noted the following errors:

- seven did not list the issuing authority for the document used to verify employee's identity and employment eligibility;
- two did not document the date for the Employee Information and Verification;
- one did not document the employee's signature and date for the Employee Information and Verification;
- one did not document the employee's social security number; and
- one did not properly reflect employee's date of birth.

At Tidewater, in our sample of fifteen I-9 forms reviewed for fiscal year 2007, we found nine I-9 forms correctly completed. In the remaining six, we observed the following errors:

- one form failed to list the first day of employment in Section 2;
- one form failed to provide sufficient information from the verification documents, such as document number, expiration date, or issuing authority; and
- one employee signed and dated one form after the employment start date listed in Section 2 on the I-9.

We found that the errors were due to a lack of proper review of the forms and a misinterpretation of the instructions on the form by the employer. Therefore, we recommend that the Colleges review the I-9 process, train the appropriate staff on the requirements of completing I-9 forms, and develop a process for continuously reviewing the I-9 process to ensure compliance with federal regulations. The federal government has increased its enforcement efforts to ensure that all new employees are legally entitled to work in the United States, which makes having a good I-9 process in place more important than ever before.

Improve Internal Controls over CIPPS Access

Applicable to: J. Sargeant Reynolds Community College

J Sargeant Reynolds did not delete access to the Commonwealth Integrated Payroll and Personnel System (CIPPS) for three out of four terminated employees timely. J. Sargeant Reynolds did not remove one employee with leave update capabilities from CIPPS until three months after termination and did not remove another employee with CIPPS certify access until six months after termination. The final employee terminated employment in September 2007 but still had CIPPS leave access in April of 2008. Although the college submitted a CIPPS Security Authorization form in January 2008 to delete access, J. Sargeant Reynolds did not follow up to ensure the Department of Accounts (DOA) performed the deletion. The college does not have agency specific CIPPS access policies and procedures in place to ensure timely removal of terminated employees.

CAPP Manual, section 50210 states that the CIPPS Security Officer is to manage CIPPS access of agency personnel by ensuring that management completes the CIPPS Security Authorization Request form timely to reflect any new actions such as additions, changes, and deletions. A lack of proper internal controls over CIPPS access exposes the agency to the potential risk of unauthorized viewing and changes to sensitive employee leave and payroll data.

J. Sargeant Reynolds should develop in-house procedures governing the levels of security requested. Additionally, the timely submission of requests to delete access for terminated/transferred employees is imperative to safeguard the assets of the Commonwealth and employees' personal information. The CIPPS Security Officer should also follow up with DOA to ensure timely removal of CIPPS access once the Security Officer has submitted the request. The procedures should also include periodic reviews of user access to ensure the levels assigned are appropriate. The Security Officer should maintain copies of approved CIPPS Security Authorization Requests.

Improve Controls Over CARS Access

Applicable to: Thomas Nelson Community College

Thomas Nelson does not have adequate controls over granting access to individuals to the Commonwealth's Accounting and Reporting Systems (CARS). Thomas Nelson has granted unreasonable access to individuals, allowing one individual to enter and release numerous batches without review, granted access to an individual not on the Authorized Signatories Form, and failed to remove employees timely upon termination.

Thomas Nelson granted one employee access to enter and release batches, and the individual had done so at least 23 times in fiscal year 2007. This same individual was not on the Authorized Signatories Form as required by the Department of Accounts. In addition, Thomas Nelson did not delete timely CARS access for four of six individuals who terminated in 2007, allowing them access to CARS for up to six months after their termination from the college.

The CAPP Manual, section 70200 gives responsibility to the CARS Security Officer to establish internal controls over CARS access. A lack of proper internal controls and separation of duties puts Thomas Nelson at risk of having improper or falsified expenditures or vouchers that did not receive proper approval. Thomas Nelson does not have agency specific policies and procedures regarding CARS access.

Thomas Nelson should establish CARS access procedures to include granting, monitoring, and deleting access timely. These policies should also include a separation of duties for entering and approving batches. Thomas Nelson should consider not granting access that allows individuals to enter and approve transactions and instead separate duties so that staff can enter or approve transactions, but not both, to ensure proper approval of CARS transactions. The CARS Security Officer should also follow up with DOA to ensure timely removal of CARS access. The procedures should also include periodic reviews of user access to ensure the levels assigned are appropriate.

Improve Internal Controls over SIS Access

Applicable to: Thomas Nelson Community College

Thomas Nelson does not have adequate controls over granting access to the college's Student Information System (SIS). Four of the 17 employees tested with SIS access had no form of SIS authorization documented and seven employees had access that exceeded that individual's job responsibilities. In addition, 15 of the 17 employees tested did not have completed SIS authorization forms but had obtained access through email requests, which the college's policies allow. However, Thomas Nelson did not retain copies of the email request, as their policy requires.

Based on Thomas Nelson's Information Technology Access Determination and Control policy, "system access should be granted via a formal auditable and documented process, and should be accompanied by security training that is commensurate to one's duties and responsibilities. The documented process should also address a periodic check to verify that accesses which have been granted in the past are still appropriate."

Without SIS authorization forms, there is no clear audit trail of who requested and approved system access. Granting employees' access that does not match their job responsibilities potentially allows access to confidential student information and the ability to make changes to student accounts or even enroll and delete student records. The college policy states that the system access request "process may be done using either email or hard copy, but the Information Security Officer will retain a hard copy of the request for as long as the employee has access plus three years past termination of the specific administration system."

Thomas Nelson should follow its policies to grant SIS access and retain a hard copy of requests. Thomas Nelson should revise its policy to require the requestor to document the employees' position and need for access requested. Thomas Nelson should only grant access if necessary for the employees' job functions.

Return Title IV Funds Timely

Applicable to: Central Virginia Community College
Danville Community College
Patrick Henry Community College

During fiscal year 2007, Central Virginia, Danville, and Patrick Henry Community Colleges did not return Title IV student financial aid funds timely to the Department of Education. Danville returned funds from the fall 2006 and spring 2007 semesters from 11 days to six months late. Patrick Henry Community College returned Title IV student financial aid funds for 26 students three days to 12 months late. During the spring 2007 semester, Central Virginia returned funds for two out of 10 students late and had not returned one student's amount at all. Central Virginia's original calculations for the spring semester were incorrect resulting in no refunds. However, during a later review, the Financial Aid Officer found the calculation errors, recalculated the refunds, and processed the refunds. The Central Virginia Student Financial Aid Office implemented improved procedures in January 2007 in response to issues we found in this area in the previous audit. However, implementation of these controls does not appear adequate to prevent improper calculations and untimely returns. There are no questioned costs reported because the colleges have returned all identified funds or the amount was less than $10,000.

According to 34 CFR 668.22 and the Higher Education Reconciliation Act of 2005, the institution must return the Title IV funds for which it is responsible as soon as possible, but no later than 45 days after the date of the institution's determination that the student withdrew.

The Financial Aid Coordinator and Business Office Manager at each college should develop and implement controls to ensure timely return of Title IV funds to the Department of Education within the 45-day time limit. A failure to comply with the Federal regulations and the Student Financial Aid Handbook could significantly affect those students involved in the Title IV process as well as financial aid available for disbursement to other eligible students.

Properly Reconcile Bank Accounts Monthly

Applicable to: Thomas Nelson Community College

Thomas Nelson has not followed up on outstanding checks, some of which are over four years old. Thomas Nelson also has over $4,000 in deposits made during fiscal year 2007 that were still in transit as of March 2008. At the time of the audit, Thomas Nelson has taken no action on the deposits to determine the status. Personnel performing the current bank reconciliation do not know how to resolve and correct errors or problems related to deposits in transit and outstanding checks.

Failing to clear outstanding items from the bank reconciliation causes the college to carry a continued and increasing un-reconciled balance. In addition, it provides opportunities for fraud to occur and go undetected. The holder of unreported unclaimed property could face civil penalties and interest for each day Thomas Nelson withholds the report and remittance.

Thomas Nelson's business office should teach its employees how to perform complete and accurate bank reconciliations and resolve outstanding items within two months. If necessary, the business office should employ individuals who can complete this work in an accurate and timely manner.

Properly Record Assets in the System

Applicable to: Tidewater Community College

Tidewater had one asset in its inventory that could not be located. In addition, two of the five assets tested did not have a tag to identify the asset number. While the college appears to have performed required inventories, they did not maintain adequate inventory records.

The lack of accurate inventory records reduces Tidewater's ability to properly manage and account for their capital assets. Tidewater should conduct a thorough investigation of all assets to ensure that personnel are properly tagging and recording assets in the capital asset system.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the Virginia Community College System (VCCS) for the year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

The VCCS financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements 37, 38, and 39. The three required financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The community college foundations are included in the accompanying financial statements as a discrete component unit in a separate column. The following discussion and analysis does not include the financial condition and activities of the foundations.

Financial Highlights

The following represents significant financial highlights for the VCCS in fiscal year 2007:

- An additional $36.2 million in general funds were provided at the 2006 Special Session of the General Assembly to address enrollment growth and base operating needs of the VCCS. This amount reflects a portion of general fund support needed to provide adequate base support of the VCCS core academic functions. These additional funds will allow the VCCS to serve more students, retain existing students more effectively, increase the number of students receiving a degree or certificate, and enhance the quality and rigor of academic programs.

- Additional general funds were provided by the General Assembly for 4.39 percent increases in faculty salaries, with 3.29 percent increases for adjunct faculty salaries and for classified employee salaries funded, all effective November 25, 2006.

- An additional $13.2 million in general funds were provided in recognition of the annualizing costs previously only funded for a part of the year (such as salary increases) and increases in some fixed operating costs.

- $1.4 million in general funds were appropriated to support new buildings scheduled to come on-line prior to June 30, 2007, on community college campuses across the Commonwealth.

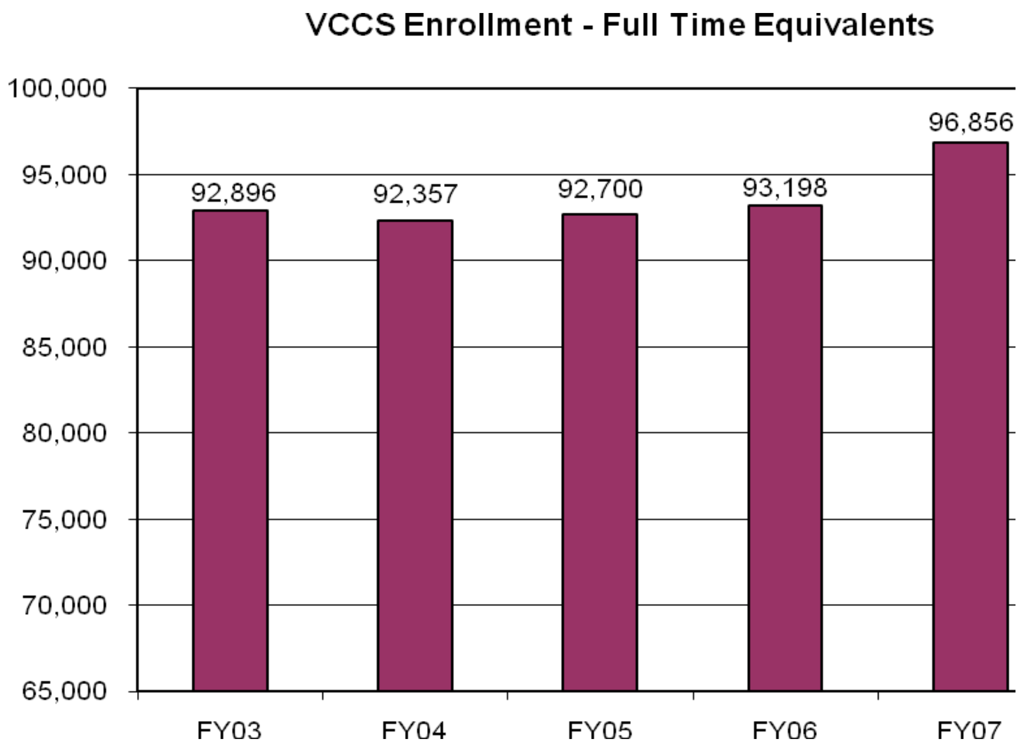
- To increase financial support for Virginia Community College students, an additional $3.0 million in general funds was appropriated. A financial aid program specifically for students taking one or two courses at a time was increased by $300,000, from $1.5 million to $1.8 million beginning July 1, 2006.

- The State Board for Community Colleges voted to increase tuition and fee rates by $4.50 per credit hour applicable to all students effective summer 2006. Under the tuition differential policy that was approved for Northern Virginia Community

College in 2006, the $3.00 per credit hour differential was increased by $2.50 per credit hour to a total of $5.50, taking effect with the summer 2006 session.

- Net assets increased by $169.5 million in fiscal year 2007 due to the increase in construction costs related to capital outlay projects and the associated capitalization of completed projects of $83.1 million and cash restricted for the development of new capital projects totaling $92 million. Partially offsetting this was an increase in expenditure accruals for accrued payroll of $18.8 million. Additional details of the changes in net assets are presented below in the analysis of the Statement of Net Assets.

Below is a chart depicting full-time equivalent students attending the VCCS over the past five years. The VCCS mission is to provide comprehensive higher education and workforce training programs and services of superior quality that are financially and geographically accessible and that meet individual, business and community needs of the Commonwealth. There was a significant increase (3.9 percent) in enrollment in FY 2006-07.



One full time equivalent represents 30 credit hours of classes taken by a student over an academic year. It is calculated on an annual basis by taking the total credit hours taught divided by 30.

Financial Statements

The three financial statements presented are the Statement of Net Assets; the Statement of Revenues, Expenses, and Change in Net Assets; and the Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the VCCS at the end of the fiscal year. The Statement also provides the amount of net assets and their availability for expenditure. Net assets are divided into three major categories. The first category, "Invested in capital, net of related debt," consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. The next category is "Restricted net assets," which are classified as nonexpendable or expendable. Nonexpendable restricted net assets are loan funds and permanent endowments (available for investment purposes only). Expendable restricted net assets are available for expenditure by the VCCS but must be spent for purposes determined by external entities. Unrestricted net assets are not subject to externally imposed restrictions and may be designated for specific purposes by management of the VCCS.

A summarized Statement of Net Assets is as follows*:

	2007	2006**
Assets:		
Current assets	$146,901	$112,684
Capital assets, net	594,259	512,922
Other non-current assets	135,063	46,747
Total assets	$876,223	$672,353
Liabilities		
Current liabilities	$ 98,891	$ 68,823
Non-current liabilities	68,869	64,538
Total liabilities	$167,760	$133,361
Net Assets		
Invested in capital assets, net of debt	$547,328	$464,152
Restricted-nonexpendable	585	511
Restricted-expendable	133,708	33,684
Unrestricted	26,842	40,645
Total net assets	$708,463	$538,992

* in thousands
**For comparative purposes, 2006 balances restated due to reporting changes in 2007 (see footnote 1K)

Current assets consist of $118.5 million in cash and investments, accounts and notes receivable of $13.5 million, prepaid expenses of $7.8 million, and inventories of $2.1 million. Current assets increased by $34.2 million due to increases in general fund maintenance reserve dollars available at year-end totaling $12.6 million, accruals of interest earnings on tuition and credit card rebates of $2.5 million (new benefit of meeting management standards), accrual of balances due on general obligation bond (GOB) reimbursements of $2.5 million (reporting change), increases in deferred revenue of $3.6 million and receivables of $2.5 million associated with higher tuition and fees and enrollments, additional prepaid expenditures at year-end of $2 million, and increases in cash and cash equivalents held locally of approximately $6 million primarily at TCC and NVCC and local investments of $2.6 million at JSRCC.

Net capital assets increased by $81.3 million from June 30, 2006, to June 30, 2007. This increase can be attributed to the capitalization of design and the construction cost of numerous capital outlay projects during the fiscal year 2007. The project costs capitalized during 2007 include: fine arts and performing center at BRCC $6.2 million, major mechanical at DCC $1.5 million, renovation of building at DSLCC $1.3 million, Parham road campus phase IV at JSRCC $10.4 million, science lab at LFCC $6 million, various projects (Loudoun phase IIA, building renovations Annandale and major mechanical Annandale/Woodbridge) at NVCC totaling $19.4 million, maintenance building at PVCC $4.6 million, major mechanical at SWVCC $2.3 million, various projects (post ISS renovations, historic triangle campus and HVAC Hasting Hall) at TNCC totaling $5.5 million, new science building at TCC $17.6 million, HVAC upgrade and renovations at WCC $4.4 million, and renovate and expand Weber Hall at VWCC $2.5 million.

Other non-current assets increased by $88.3 million in fiscal year 2007 from fiscal year 2006. This was primarily due to an increase in the general fund cash balances at June 30, 2007, for capital outlay projects. The increase can be attributed to general fund appropriations authorized in Chapter 847 of the Virginia Acts of Assembly.

Current liabilities consist primarily of accounts payable of $23.5 million, accrued payroll and leave compensation of $44.6 million, deferred revenue of $22.5 million, debt obligations of $4.2 million, and deposits of $4.1 million. Current liabilities increased $30.1 million, primarily due to an $18.8 million increase in accrued payroll expense attributable to the Governor's mandate to move two payrolls scheduled to be paid in fiscal year 2007 into fiscal year 2006. In addition, accounts payable increased $7.2 million and includes: $1.1 million science building at TCC, $.98 million science laboratory at LFCC, $1.76 million phase III renovations at NVCC, $.98 million HVAC for Hastings Hall at TNCC and various projects within the VCCS for retainage payable totaling $2.6 million. Lastly, deferred revenue balances increased $3.6 million associated with higher tuition and fee rates and increased enrollments.

Statement of Revenues, Expenses, and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present operating and non-operating revenues received by the institution, operating and non-operating expenses incurred, and any other revenues, expenses, gains and losses. Changes in net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets.

A summarized Statement of Revenues, Expenses, and Changes in Net Assets* for the year ended June 30, follows:

	2007	2006**
Operating revenue	$354,793	$337,499
Operating expenses	775,966	702,370
Operating loss	(421,173)	(364,871)
Non-operating revenues(expenses):		
State appropriations	387,881	355,622
Local appropriations	2,261	1,934
Grants and gifts	7,030	8,498
Investment income	5,274	2,129
Interest expense	(2,261)	(1,923)
Other	(275)	(656)
Net non-operating revenue	399,910	365,604
Loss before other revenues, expenses, gains or losses	(21,263)	733
Capital appropriations-state	168,782	48,684
Capital appropriations-local	9,498	7,000
Capital gifts and grants	12,454	5,688
Increase in net assets	169,471	62,105
Net assets, beginning of year as stated	538,992	476,887
Net assets, end of year	$708,463	$538,992

* in thousands
** For comparative purposes, 2006 balances restated due to reporting changes in 2007 (see footnote 1K)

Total operating revenues increased by $17.3 million or 5.1 percent over the prior year. The growth in student tuition and fee revenue was $19.4 million or 10 percent over the prior year. This increase was expected given the moderate rise in both in-state and out-of-state tuition rates effective for the summer term 2006. This was partially offset by a decrease of $3 million in grants and contract revenue.

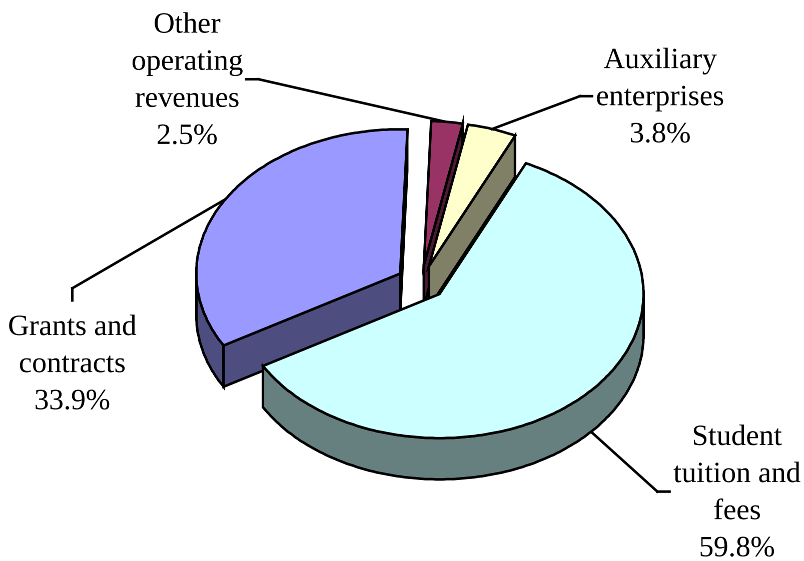
Non-operating revenue increased by $34.3 million from the previous year's total. The majority of the increase was from additional state appropriations of $32.3 million. State appropriation revenue grew as a result of continuing legislative efforts to address base funding needs.

Capital appropriations totaling $168.8 million increased $120.1 million or 246.7 percent over the prior year. The increase in appropriations revenue for capital projects can be attributed to general fund appropriations approved in the 2006 Virginia Acts of Assembly, Chapter 3 in addition to the restatement of net assets as reference in Footnote 1.

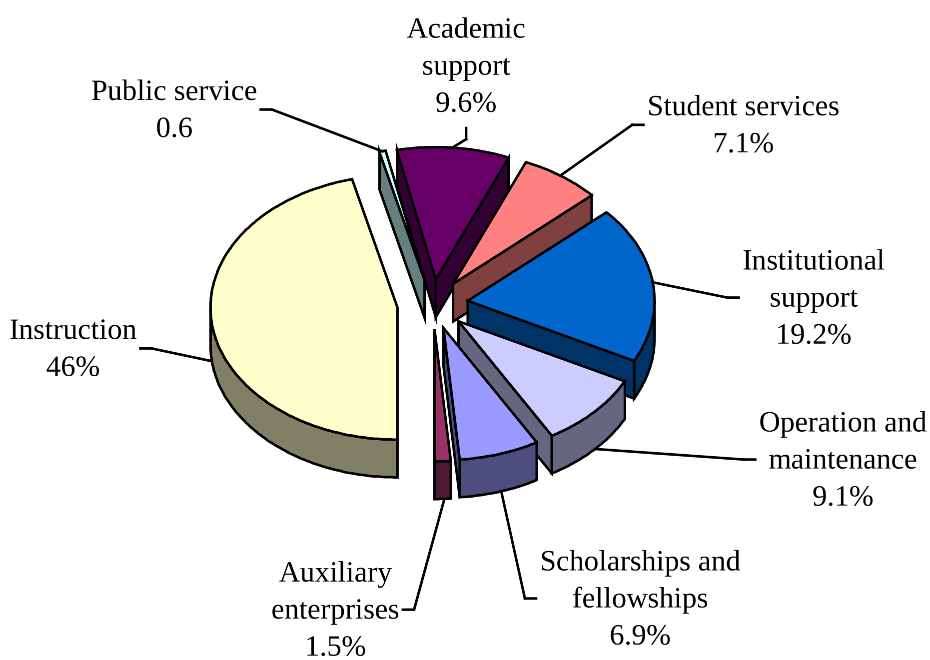
Similarly, operating expenses totaled approximately $776 million for fiscal 2007 and grew by $73.6 million. The natural expense category, compensation and benefits, comprises $524.2 million of VCCS total operating expenses. This category increased by $54.3 million (11.6 percent) over the previous year. The Commonwealth provides merit based and across-the-board salary increases on a periodic basis. During fiscal year 2007, a four percent increase was provided to classified staff and an average increase of 5.9 percent was given to faculty members. The net increase in compensation and benefits resulted in growth in almost all functional categories. Instruction expenses increased by $33.2 million or 10.3 percent due to increases in personnel compensation and fringe benefit costs. Institutional and academic support increased by $17.3 million and $9 million respectively.

A graphic presentation of fiscal year 2007 operating revenues and operating expenses by source (per the Statement of Revenues, Expenses, and Changes in Net Assets) is below:

Operating Revenues by Source



Operating Expenses



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash. A summary of the cash flows is as follows**:**

	2007	2006*
Cash received from operations	$357,400	$338,971
Cash used in operations	717,929	678,350
Net cash used in operations	(360,529)	(339,379)
Net cash provided by investing activities	750	1,333
Net cash provided by (used in) capital and related financing activities	81,265	(1,479)
Net cash provided by non-capital financing activities	391,400	358,831
Net increase in cash and cash equivalents	112,886	19,306
Cash and cash equivalents, beginning of year (restated)	124,848	105,542
Cash and cash equivalents, end of year	$237,734	$124,848

* For comparative purposes, 2006 balances restated due to reporting changes in 2007 (see footnote 1K)

Cash and cash equivalents increased by $112.9 million in fiscal year 2007 compared to a $19.3 million increase in fiscal year 2006. This increase is primarily in the area of appropriations available for new capital project design and construction funding. Net cash used in operating activities in fiscal year 2007 was $361 million compared to $339 million in fiscal year 2006. This can be attributed to increases in expenditures for suppliers and employee wages and fringe benefits, partially offset by an increase in tuition and fees. Net cash provided by capital financing activities increased by $82.7 million. Increases were primarily comprised of capital revenues (state and local appropriations and grants) of $129.4 million offset by increases in capital asset purchases of $48 million. The capital appropriation increases reflect a reporting change in fiscal year 2007 that resulted in restatement of the fiscal year 2006 balances by $42.5 million (for additional detail see footnote 1K). Net cash provided by non-capital financing increased by $32.6 million in fiscal year 2007 compared to fiscal year 2006 principally due to increased state appropriations of $32.3 million (net of reversion).

Economic Outlook

The VCCS receives approximately 60 percent of its operating budget through general fund appropriations of the Commonwealth. Virginia is entering its fifth year of economic expansion. However, it is now seeing the signs of slower rates of growth in jobs and income, and only moderate growth in the overall economy is expected. In fiscal year 2007, revenues grew 4.9 percent, compared to an anticipated 6.5 percent growth rate. This translated into $234 million revenue shortfall. To help deal with this shortfall, on May 21, 2007, the Governor’s Chief of Staff asked institutions and agencies to closely monitor discretionary spending and to report, by June 1, anticipated carry-forward amounts. Agencies and institutions were encouraged to carry-forward unspent fiscal year 2007 funds into fiscal year 2008 in order to off-set potential fiscal year 2008 reductions. The 23 community colleges and the system office carried forward $29,124,393 in unspent fiscal year 2007 funds.

With the implementation of the *Higher Education Restructuring Act*, a commitment was made by the 2005 General Assembly to fund enrollment growth and core operations of higher education institutions. The *Higher Education Restructuring Act* endorsed the concept of restoring responsibility and authority for financial management to the Boards of Visitors at all institutions. In that spirit, the *Act* provides that institutions meeting prescribed academic and management standards be allowed to carry-forward funds from one fiscal year to the next, as well as retain interest earnings on tuition and fee revenues and receive a share of the Commonwealth's rebate from its small purchase charge card program. The VCCS met its academic and management standards in fiscal year 2007.

In addition, the 2005 General Assembly retained the existing language in the *Appropriations Act* that provides explicit authority to the Board of Visitors to set tuition and fee rates as well as the expectation that in-state students pay one-third of their costs and out-of-state students pay 100 percent of their costs. The 2007 General Assembly appropriated a "Tuition Incentive Fund" providing, in part, approximately $1.0 million in additional general funds to the VCCS if tuition and mandatory E & G fees were increased by no more than six percent for the 2007-08 academic year. The State Board for Community Colleges has committed to funding the *Dateline 2009* initiative, as well as ensuring moderate tuition increases. Dateline 2009 outlines the strategic direction for the VCCS. A significant part of this initiative relies on expansion of the VCCS funding base. Tuition represents the VCCS' share of that funding.

The State Board for Community Colleges approved a tuition increase of $4.15 per credit hour applicable to all in-state students and an increase $13.45 per credit hour applicable to all out-of-state students effective summer term 2007. It is anticipated that this will generate approximately $18.6 million in tuition and fee revenues in fiscal year 2007. The Northern Virginia tuition differential was increased by $0.35 per credit hour, applicable to all students and effective summer term 2007. It is anticipated that this will generate approximately $0.6 million in tuition and fee revenues in fiscal year 2008. The Technology fee was increased by $0.35 per credit hour, bringing the fee to $3.50 per credit hour for all students. The out-of-state capital fee was increased from $2.20 to $3.00 in order to accommodate a transfer mandated by the 2007 General Assembly.

In the fiscal year 2008 budget, the VCCS received approximately $2.0 million new general fund dollars specifically earmarked to address base funding needs identified by the Joint Subcommittee of Higher Education Funding Policies. In addition, because the State Board did not exceed the six percent tuition increase limit, $1.0 million from the Tuition Incentive Fund is available to fund the base operational needs. This represents the total increase in general fund support available for enrollment increases, which are projected to occur in fiscal year 2008.

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FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF NET ASSETS
As of June 30, 2007

	VCCS	Component Units Foundations
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 113,140,030	$ 21,946,250
Short term investments (Note 2)	5,336,183	3,988,167
Accounts receivable (Note 3)	12,538,493	584,043
Pledges receivable (Note 3)	-	4,338,686
Due from Commonwealth	5,043,326	-
Interest receivable	38,701	209,062
Prepaid expenses	7,747,714	21,912
Inventories	2,115,077	12,008
Notes receivable (Note 3)	941,514	1,663
Total current assets	146,901,038	31,101,791
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	124,252,312	-
Endowment cash and cash equivalents (Note 2)	341,734	1,489,557
Endowment investments (Note 2)	-	52,521,869
Other long-term investments (Note 2)	-	46,651,417
Accounts receivable, net	37,120	-
Investments in real estate	-	1,627,321
Pledges receivable (Note 3)	-	5,193,169
Due from Commonwealth	7,207,693	-
Notes receivable (Note 3)	3,223,954	30,628
Non-depreciable capital assets, net (Note 4)	150,091,761	6,545,876
Depreciable capital assets, net (Note 4)	444,167,478	5,166,686
Total noncurrent assets	729,322,052	119,226,523
Total assets	876,223,090	150,328,314
LIABILITIES		
Current liabilities:		
Accounts and retainage payable (Note 5)	23,488,716	3,708,996
Accrued payroll expense	31,077,236	10,848
Deferred revenue	22,461,404	59,397
Long-term liabilities-current portion (Note 7)	17,648,854	2,471,685
Due to Commonwealth	156,300	-
Deposits	4,058,911	-
Total current liabilities	98,891,421	6,250,926

Noncurrent liabilities:		
Long-term liabilities (Note 7)	63,893,994	4,359,688
Due to federal government (Note 7)	4,975,021	-
Total noncurrent liabilities	68,869,015	4,359,688
Total liabilities	167,760,436	10,610,614
NET ASSETS		
Invested in capital assets, net of related debt	547,327,462	7,612,562
Restricted for:		
Nonexpendable	585,226	45,604,876
Expendable	133,707,753	51,490,274
Unrestricted	26,842,213	35,009,988
Total net assets	$ 708,462,654	$ 139,717,700

The accompanying notes to the financial statements are an integral part of this statement.

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VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	VCCS	Component Units Foundations
Operating revenue:		
Tuition and fees (net of scholarship allowance of $50,044,875)	$ 212,343,177	$ -
Federal grants and contracts	104,557,188	211,167
State and local grants	6,118,758	-
Nongovernmental grants	9,277,368	1,427,003
Sales/services of education department	234,644	-
Auxiliary enterprises (net of scholarship allowance of $2,799,327)	13,495,527	-
Gifts and contributions	-	10,007,405
Endowment income	-	4,222,126
Other operating revenues	8,765,926	1,896,620
Total operating revenue	354,792,588	17,764,321
Operating expenses:		
Instruction	357,164,074	597,838
Public service	4,684,249	131,816
Academic support	74,479,025	3,278,520
Student services	55,365,016	-
Institutional support	148,672,189	15,593,676
Operation and maintenance	70,906,864	2,110,421
Scholarships and fellowships	53,355,074	3,491,685
Auxiliary enterprises	11,264,040	-
Fundraising	-	826,141
Other expenses	75,248	30,368
Total operating expenses	775,965,779	26,060,465
Operating loss	(421,173,191)	(8,296,144)
Nonoperating revenues/(expenses):		
State appropriations (Note 12)	387,881,071	-
Local appropriations	2,261,110	-
Grants and gifts	7,029,496	-
Investment income	5,273,775	8,097,556
Interest on capital asset related debt	(2,260,675)	(262,778)
Other nonoperating expense	(274,844)	-
Net nonoperating revenue	399,909,933	7,834,778
Loss before other revenues, expenses, or losses	(21,263,258)	(461,366)
Capital appropriations-state	168,781,644	-
Capital appropriations-local	9,498,512	-
Capital gifts, grants and contracts	12,453,960	16,628,450
Additions to permanent and term endowments	-	6,392,495
Increase in net assets	169,470,858	22,559,579
Net assets beginning of year as restated (Note 1)	538,991,796	117,158,121
Net assets end of year	$ 708,462,654	$ 139,717,700

The accompanying Notes to the Financial Statements are an integral part of this statement

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Tuition and fees	$ 215,040,439
Grants and contracts	118,617,744
Payments to suppliers and others	(146,177,387)
Payments for employee wages	(396,068,944)
Payments for employee fringes	(107,426,614)
Payment for scholarships	(55,905,779)
Payments for utilities	(11,251,191)
Sales and services of education department	235,506
Auxiliary	13,583,942
Loans issued to students	(1,099,172)
Loans collected from students	1,359,791
Other	8,562,349
Net cash used by operating activities	(360,529,316)
Cash flows from non-capital financing activities:	
State appropriations	387,881,071
Local appropriations	2,261,110
Grants and gifts	830,360
Agency receipts	14,766,151
Agency disbursements	(14,578,665)
PLUS, Stafford and Direct Lending loan receipts	32,541,745
PLUS, Stafford and Direct Lending loan disbursements	(32,138,353)
Borrowings	433,043
Loan repayments	(607,750)
Other non-operating revenue	11,456
Net cash provided by non-capital financing activities	391,400,168
Cash flows from capital financing activities:	
Capital appropriations-state	168,612,282
Capital appropriations-local	9,498,512
Capital grants and gifts	9,267,763
Purchase capital assets	(98,111,280)
Proceeds from sale of capital assets	42,416
Proceeds from bond issue	-
Debt interest payments	(2,260,675)
Debt principal payments	(5,783,915)
Net cash provided by capital financing activities	81,265,103
Cash flows from investing activities:	
Purchases of investments	(6,591,027)
Sale of investments	4,214,205
Investment income	3,126,526
Net cash provided by investing activities	749,704
Net increase in cash and cash equivalents	112,885,659
Cash and cash equivalents - beginning of year as restated	124,848,417
Cash and cash equivalents - end of year	$ 237,734,076

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (421,173,191)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	27,459,875
Changes in assets and liabilities:	
Accounts receivable, net	(2,306,434)
Prepaid expenses and other	3,976,925
Accrued compensation and leave	20,619,496
Accounts payable and other	6,850,975
Deferred revenue	3,685,458
Deposits pending distribution	357,580
Net cash used in operating activities	$ (360,529,316)
Noncash transactions:	
ETF equipment	$ 8,233,493
Assets acquired through capital leases or installment purchases	$ 2,922,554
Donated fixed assets	$ 508,943
Debt principal and interest payments made by Treasury	$ 2,000,389

The accompanying notes to the financial statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Community College System (VCCS) was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, and twenty-three community colleges located on forty campuses throughout the Commonwealth. The State Board for Community Colleges is the governing body and is charged with the responsibility to establish, control, and administer a statewide system of publicly supported comprehensive community colleges. The System therefore functions as a statewide institution of higher learning.

The accompanying financial statements include all of the individual community colleges and the System Office under the control of the State Board for Community Colleges.

The System is a discrete component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. Community College Foundations

The community college foundations are legally separate, tax-exempt organizations formed to promote the achievements and further the aims and purposes of the colleges. The foundations accomplish their purposes through fundraising and funds management efforts that benefit the colleges and their programs. Although the colleges do not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest are restricted to the activities of the colleges by the donors. Because these restricted resources held by the foundations can only be used by or for the benefit of the colleges, the foundations are considered component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the community college foundations are presented as discrete component units in the financial statements.

During the year ended June 30, 2007, the foundations distributed $15,090,305 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 101 N. 14th St., Richmond, VA 23219.

C. Basis of Accounting

For financial reporting purposes, the VCCS is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2007.

The VCCS has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The VCCS has elected not to apply FASB pronouncements issued after the applicable date.

The community college foundations are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the financial information of the foundations in the financial statements of the VCCS regarding these criteria and presentation features.

The financial statements for the community college foundations are for the year ending June 30, 2007, except for Dabney S. Lancaster, Danville, Eastern Shore, Germanna, John Tyler, Lord Fairfax, Mountain Empire, New River, Piedmont, Tidewater (Educational and Real Estate Foundations), Virginia Western, and Wytheville (Educational and Scholarship Foundations) that are as of December 31, 2006.

D. Inventories

Inventories are stated at cost (primarily first-in, first-out method) and consist mainly of goods purchased for resale and expendable supplies.

E. Investments

Investments meeting the valuation standards outlined in GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, have been shown at fair market value. The remaining investments have been recorded at cost.

F. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books, and construction in progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure, and land that significantly increase the usefulness, efficiency, or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. All equipment purchased under the Equipment Trust Fund program that is titled to the Virginia College Building Authority has been capitalized on these statements. Donated assets are recorded at the estimated fair value at the date of donation. The fixed asset values presented in these financial statements are extracted from the financial data maintained by the System’s Financial Records System and the Fixed Asset Inventory System (FAIS). Current fund expenditures for equipment are capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 3 to 25 years for equipment, and 10 years for library books.

G. Accrued Compensated Absences

The amount of leave earned but not taken by all classified employees, administrative/professional faculty, teaching faculty, and presidents is recorded as a liability on the balance sheet. The amount reflects, as of June 30, all unused annual leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. An additional liability amount has been included for those employees with less than five years of service based on the probability they will eventually become vested. Also included in the liability is the System’s share of the FICA taxes on leave balances for which employees will be compensated.

H. System Office Expenditures

The central office (the System Office) of the VCCS provides a variety of functions ranging from management control to centralized support services. Because most of these activities are management in nature and cover the operation of the entire System, they have been classified as Institutional Support.

I. Classification of Revenues and Expenses

The VCCS has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues include activities that have the characteristics of exchange transactions, such as tuition and fees, sales and services of auxiliary enterprises, most federal, state, and local grants and contracts, and interest on student loans.

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, and investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital equipment. All other expenses are classified as operating expenses.

J. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the VCCS and the amount that is paid by students and/or third parties making payments on the student’s behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the VCCS has recorded a scholarship discount and allowance.

K. Net Assets

Net assets are classified as follows:

Invested in capital, net of related debt: Consists of capital assets, net of accumulated depreciation reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - nonexpendable: Restricted nonexpendable net assets are endowment funds in which donors have stipulated, as a condition of the gifts, that the principal is to remain inviolate in perpetuity.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the VCCS is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources that may be used at the discretion of the governing board for any lawful purpose.

When an expense is incurred that can be paid from either restricted or unrestricted resources, it is the policy of the VCCS to first apply the expense towards restricted resources and then towards unrestricted resources.

Beginning net assets have been adjusted to correct prior year balances as follows:

Community Colleges:

Net assets as of June 30, 2006 as previously reported	$589,738,189
Reporting change – Capital programs	(50,746,393)
Net Assets as of July 1, 2006, restated	$538,991,796

The Commonwealth of Virginia implemented a reporting change within their Comprehensive Annual Financial Report in fiscal year 2007 relative to the display of capital project appropriation revenue associated with the Treasury reimbursement programs. Prior to fiscal year 2007, state appropriation revenue for the Treasury reimbursement programs was recognized as capital appropriations when allotted to the VCCS. Beginning in fiscal year 2007, state appropriation revenue for these programs was recognized when the reimbursement was received from the Department of Treasury. In addition, fiscal year 2007 state appropriation revenue was accrued if capital expenditures associated with these programs had not been reimbursed by year end. The VCCS adopted these changes in its financial statements and the prior year net assets were restated accordingly.

Community College Foundations:

Net assets as of June 30, 2006 as previously reported	$117,540,527
Reporting change – Write down charitable trust	(382,406)
Net Assets as of July 1, 2006, restated	$117,158,121

2. CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months.

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the VCCS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds.

Deposits

Local cash deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act, Section 2.2-4400 et seq., Code of Virginia. Deposits covered by the Virginia Security of Public Deposits Act totaled $25,140,593 at June 30, 2007.

Investments

Certain deposits and investments are held by the VCCS. Such investments are reported separately from cash and cash equivalents. Investments represent securities with original maturities of more than three months and for which management intends to hold the securities to maturity.

Investments of the member colleges of the VCCS are limited to those allowed under Chapter 45, Investments of Public Funds Act, Sections 2.2-4500 and 2.2-4501 of the Code of Virginia. Commonwealth of Virginia law limits investments in stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth. Investments in United States agencies all carry the explicit guarantee of the United States government. Additionally, Virginia's community colleges may participate in the Local Government Investment Pool as authorized by Chapter 46 of the Code of Virginia and managed by the Commonwealth of Virginia Treasury Board. Authorized investments in the Local Government Investment Pool are limited to those set forth for local officials in Chapter 45, Sections 2.2-4500 of the Code of Virginia.

GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3, issued March 2003, became effective for the fiscal year ending June 30, 2005, and imposed new standards for financial reporting. The VCCS implemented the necessary changes to be in compliance with this Statement. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, foreign currency risk, and any other risks. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. As an element of credit risk, this Statement requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market mutual funds, bond mutual funds, and other pooled investment of fixed-income securities. As an element of foreign currency risk, this Statement requires certain disclosures of investments that have fair values that could be adversely affected by changes in exchange rates. Deposit and investment policies related to the risks identified in the Statement are also required to be disclosed.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2007.

Interest Rate Risk

Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

Credit Risk

Disclosure of the credit quality rating is required for investments exposed to the risk that an issuer or other counterparty will not fulfill its obligations. Investments subject to credit rate risk are outlined in the accompanying chart.

Concentration of Credit Risk

Disclosure of any one issuer is required when it represents five percent or more of total investments. VCCS does not have such concentration of credit risk for 2007.

Foreign Currency Risk

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. VCCS has no investments or deposits subject to Foreign Currency Risk for 2007.

Cash Equivalents	Credit Rating	Maturities	Fair Value
Local Government. Investment Pool	AAA	0 – 3 months	$35,755,051
Certificates of Deposit	Not rated	0 – 3 months	11,099,773
Repurchase Agreements	Not rated	0 – 3 months	3,373,738
Mutual and Money Market Funds	Not rated	0 – 3 months	2,602,757
Securities Lending (1)			49,718
Total			$52,881,037

Investments	Credit Rating	Maturities	Fair Value
U.S. Government Treasury Bills	Not rated	4 – 12 months	$3,121,628
Mutual Funds	Not rated	4 – 12 months	619,544
Federal National Mortgage Association	AAA	1 – 5 years	100,030
Federal Home Loan Bank	AAA	1 – 5 years	99,844
Federal Home Loan Mort. Corp.	AAA	1 – 5 years	273,344
U.S.Treasury Obligations Note	AAA	1 – 5 years	424,663
Federal Home Loan Mort. Corp.	AAA	6 – 10 years	200,813
Federal Home Loan Mort. Assoc.	AAA	6 – 10 years	200,165
U.S.Treasury Obligations Note	AAA	6 – 10 years	100,289
Securities Lending (1)			195,863
Total			$5,336,183

(1) GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes standards of accounting and financial reporting for transactions where governmental entities transfer securities to broker-dealers and other entities for collateral, and simultaneously agree to return the collateral for the same securities in the future. The amounts identified above represent the VCCS' allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. Information related to the credit risk of these investments and securities lending transactions held in the general account is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

Community College Foundations

The Foundations had the following cash, cash equivalents, and investments as of June 30, 2007:

Cash and cash equivalents	$ 23,435,807

Investments

Investments	
Mutual funds and money markets	$ 47,243,354
Stocks	21,395,027
U.S. government securities	5,450,518
Corporate bonds	11,358,159
UVA investment fund	3,792,326
Mortgage-backed securities	3,891,624
Investment in real estate	3,936,865
Certificates of deposits	6,694,575
Split interest agreement	367,549
Cash surrender value of life insurance	553,972
Other property investments	104,805
Total investments	$104,788,774

Some VCCS foundations had balances in bank and savings institutions that exceeded federally-insured limits. However, the foundations do not believe this poses any significant credit risk.

3. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2007:

Gross accounts receivable:	
Tuition and fees	$ 5,742,384
Auxiliary enterprises	926,527
Federal, state, local and nongovernmental grants, gifts, contracts	5,506,193
Other activities	812,052
Total gross accounts receivable	12,987,156
Less: Allowance for doubtful accounts	(411,543)
Net accounts receivable	$12,575,613
Gross Loans and notes receivable	$ 4,335,960
Less: Allowance for doubtful accounts	(170,492)
Net loans and notes receivable	$ 4,165,468

Receivables not expected to be collected within one year are $37,120 in accounts receivable and $3,223,954 in notes and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2007:

Gross accounts receivable	$ 633,771
Less: Allowance for doubtful accounts	(49,728)
Net accounts receivable	$ 584,043
Pledges receivable:	
Due in one year	$4,432,161
Due in 1-5 years	5,746,900
Due in more than 5 years	38,045
Less: Allowance for doubtful accounts	(237,119)
Present value discount	(448,132)
Net pledges receivable	$9,531,855
Gross loans and notes receivable	$ 32,291
Less: Allowance for doubtful accounts	(-)
Net loans and notes receivable	$ 32,291

Receivables not expected to be collected within one year are $30,628 in notes and loans receivable and $5,193,169 in pledges receivable.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2007 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	$ 26,587,944	$ 76,124	$ (83,951)	$ 26,580,117
Land improvements	11,103,793	17,000	-	11,120,793
Inexhaustible works of art	83,242	-	-	83,242
Construction in progress	48,820,539	86,931,721	(23,444,651)	112,307,609
Total nondepreciable capital assets	86,595,518	87,024,845	(23,528,602)	150,091,761
Depreciable capital assets:				
Buildings	478,421,310	21,621,885	(5,000)	500,038,195
Infrastructure	24,042,778	969,024	-	25,011,802
Equipment	126,407,075	19,064,489	(4,859,993)	140,611,571
Land improvements	48,955,004	1,833,570	-	50,788,574
Library books	40,760,946	2,057,870	(1,398,028)	41,420,788
Total depreciable capital assets	718,587,113	45,546,838	(6,263,021)	757,870,930
Less accumulated depreciation for:				
Buildings	(133,628,339)	(10,847,917)	5,522	(144,470,734)
Infrastructure	(10,424,886)	(1,125,898)	-	(11,550,784)
Equipment	(88,236,212)	(12,142,319)	4,615,229	(95,763,302)
Land improvements	(28,365,780)	(1,588,893)	-	(29,954,673)
Library books	(31,605,637)	(1,756,348)	1,398,026	(31,963,959)
Total accumulated depreciation	(292,260,854)	(27,461,375)	6,018,777	(313,703,452)
Depreciable capital assets, net	426,326,259	18,085,463	(244,244)	444,167,478
Total capital assets, net	$512,921,777	$105,110,308	$(23,772,846)	$594,259,239

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2007:

Vendor payables	$18,587,669
Retainage payable	4,897,428
Taxes payable	3,619
Total	$23,488,716

6. COMMITMENTS

At June 30, 2007, the VCCS had future commitments for construction contracts totaling approximately $81,367,496. The System held $4,897,428 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

7. LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	$ 1,280,902	$ -	$ 185,934	$ 1,094,968	$ 200,833
Other capital leases	22,597,793	-	1,580,297	21,017,496	1,589,587
Notes payable:					
Installment purchases	7,836,240	7,961,676	3,042,684	12,755,232	924,667
Pooled bonds	18,515,000	-	975,000	17,540,000	1,000,000
Other notes payable	654,707	433,043	607,750	480,000	480,000
Total bonds, notes and capital leases	50,884,642	8,394,719	6,391,665	52,887,696	4,195,087
Other liabilities:					
Compensated absences	26,864,503	17,603,419	15,812,770	28,655,152	13,453,767
Federal loan program contributions	4,975,021	-	-	4,975,021	-
Total other liabilities	31,839,524	17,603,419	15,812,770	33,630,173	13,453,767
Total long-term liabilities	$82,724,166	$25,998,138	$22,204,435	$86,517,869	$17,648,854

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2007, consists of the following:

Higher Education Refunding Bonds, Series 1999, issued $1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A. The balance is payable in annual installments ranging from approximately $185,000 to $240,000 with an average coupon rate of 4.18 percent payable semiannually. The final installment of $239,167 is due June 1, 2012. The outstanding balance at June 30, 2007 is $1,094,968.

Aggregate annual maturities of bonds payable for fiscal years after 2007:

Year Ending June 30	Principal	Interest	Total
2008	$ 200,833	$ 48,751	$ 249,584
2009	207,909	40,215	248,124
2010	219,967	31,119	251,086
2011	227,093	21,221	248,314
2012	239,166	11,002	250,168
Total debt service requirements	$1,094,968	$152,308	$1,247,276

9. NOTES PAYABLE

Notes payable represents an agreement with the Virginia College Building Authority (VCBA) to finance the following projects:

Parking and access road improvements for John Tyler Community College - The balance is to be repaid in ten annual installments ranging from $70,000 to $130,000 with an average coupon rate of 4.03 percent payable semiannually. The final installment of $130,000 is due September 1, 2013. The outstanding balance at June 30, 2007 is $785,000.

Parking improvements for the Midlothian campus of John Tyler Community College - The balance is to be repaid in ten annual installments ranging from $35,000 to $45,000 with an average interest rate of 3.52 percent payable semiannually. The final installment of $45,000 is due September 1, 2008. The outstanding balance at June 30, 2007 is $90,000.

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from $265,000 to $555,000 with an average coupon rate of 4.27 percent payable semiannually. The final installment of $555,000 is due September 1, 2021. The outstanding balance at June 30, 2007 is $6,180,000.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from $310,000 to $400,000 with an average coupon rate of 4.35 percent payable semiannually. The final installment of $400,000 is due September 1, 2023. The outstanding balance at June 30, 2007 is $6,800,000.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in twenty annual installments ranging from $110,000 to $330,000 with an average coupon rate of 4.95 percent payable semiannually. The final installment of $330,000 is due September 1, 2022. The outstanding balance at June 30, 2007 is $3,685,000.

Other notes payable of $480,000 represents advances received from the Commonwealth of Virginia in anticipation of federal grant funding.

Scheduled maturities of notes payable are as follows:

Year Ending June 30	Principal	Interest	Total Payments
2008	$ 1,000,000	$ 810,157	$ 1,810,157
2009	1,020,000	768,429	1,788,429
2010	1,000,000	725,787	1,725,787
2011	1,030,000	676,700	1,706,700
2012	1,060,000	625,300	1,685,300
2013-2017	5,360,000	2,358,740	7,718,740
2018-2022	5,940,000	1,011,584	6,951,584
2023-2025	1,130,000	44,662	1,174,662
Totals	$17,540,000	$7,021,359	$24,561,359

10. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total $33,339,667 and $15,768,324, respectively. Rent expense under operating lease agreements amounted to $11,078,134 for the year. A summary of future obligations under lease agreements as of June 30, 2007, follows:

Year Ending June 30,	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2008	$ 2,558,241	$ 1,395,225	$ 5,178,583
2009	2,588,914	1,391,307	4,337,472
2010	2,588,289	1,611,688	3,708,119
2011	3,090,783	1,233,626	2,659,955
2012	2,387,448	1,233,623	2,644,036
2013-2017	10,646,845	5,379,863	7,926,248
2018-2022	3,694,797	4,702,591	948,750
Total obligation and gross minimum lease payments	27,555,317	16,947,923	27,403,163
Less: Interest	(6,537,821)	(4,192,691)	-
Present value of minimum lease payments	$21,017,496	$12,755,232	$27,403,163

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2007 were as follows:

Functional Classification	Natural Classification: Salaries and Benefits	Utilities	Scholarships	Depreciation	Supplies, Services and Other	Total
Instruction	$296,684,207	$ 173,634	$ 2,336,288	$15,643,305	$ 42,326,640	$357,164,074
Public service	2,568,531	(1,139)	4,290	28,840	2,083,727	4,684,249
Academic support	56,446,794	10,259	276,403	3,171,748	14,573,821	74,479,025
Student services	49,329,456	306	235,058	342,128	5,458,068	55,365,016
Institutional support	97,716,399	114,808	291,375	6,932,018	43,617,589	148,672,189
Operation and maintenance of plant	19,459,129	10,914,726	37,229	1,341,836	39,153,944	70,906,864
Scholarships and fellowships	9,774	-	52,861,313	-	483,987	53,355,074
Auxiliary enterprises	1,991,303	99,523	13,616	--	9,159,598	11,264,040
Other expenses	-	-	-	-	75,248	75,248
Total	$524,205,593	$11,312,117	$56,055,572	$27,459,875	$156,932,622	$775,965,779

12. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2007-08 provided that the VCCS meets the Management Standards established by the Secretary of Education and the Secretary of Finance and approved by the Governor.

During the year ended June 30, 2007, the Virginia Community College System received the following supplemental appropriations in accordance with the Appropriation Act of 2007, Chapter 4, Acts of Assembly.

Appropriated Special Session 1 – Approved June 30, 2006	$382,301,552
Amendment – reduction in maintenance and operations due to delayed construction	(900,000)
Appropriated - Chapter 4 - Approved April 4, 2007	381,401,552
Additions:	
Transfers from central appropriations:	
Fiscal year 2006 state employee salary increase	1,862,232
Pay practices funding (.5 percent)	227,829
Employee health care insurance premium increase	2,403,639
Employee retirement contribution rate increase	2,353,856
Employee group life insurance contribution rate increase	552,749
Sickness and disability contribution rate increase	217,751
Retiree health credit contribution rate increase	50,246
Employee mileage reimbursement increase	82,528
Less:	
Virginia law officers retirement contribution rate decrease	(20,192)
Other:	
Transfer from SCHEV – VIVA	31,329
Carryover (re-appropriated) fiscal year 2006 year-end balance	19,617,559
DOE Literacy program	125,000
25th Payroll of fiscal year 06	(10,826,113)
Equipment Trust Fund lease payment	(633,657)
Transfer capital fee	(258,960)
Philpott Manufacturing	(628,910)
Reversion	(28,879,450)
Revert unrestricted 0100	(294)
Adjusted Unrestricted Appropriations	$367,678,694

Other restricted appropriations were $20,202,377 for a total of $387,881,071.

13. EQUIPMENT TRUST FUND

The System participates in the Higher Education Equipment Trust Fund of the Virginia College Building Authority (VCBA). The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. In prior years, funds were provided in the form of a lease. During the year ended June 30, 2007, the VCBA financed the ETF program with state funds, which will not require repayment.

14. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board for the year ended June 30, 2007 is $795**.** These amounts are reported as restricted expendable net assets. Total-return policy is followed for authorizing and spending investment income.

15. CONTINGENCIES

Grants

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2007, the VCCS estimates that no material liabilities will result from such audits.

16. PENSION PLAN

All qualified salaried employees of the VCCS must participate in one of two retirement benefit plans - the Virginia Retirement System (VRS) or the Optional Retirement Plan (ORP). Classified employees are eligible to participate in the VRS only, while faculty rank employees are eligible to participate in either the VRS or the ORP.

The VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. This is a fixed benefit plan, with benefits vesting after five years of service. Current benefit provisions are based on a formula using years of service, salary, and age. The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the VCCS, has overall responsibility for contributions to this plan.

Participants in the ORP may select from one of five plan administrators for the receipt and investment of contributions. This is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4 percent) contributions, plus interest and dividends.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were $4,829,507 and $4,733,323 for years ended June 30, 2007 and 2006, respectively. Contributions to the ORP plan were calculated using the base salary amount of $46,437,565 and $45,512,723 for fiscal years 2007 and 2006. The VCCS total payroll for fiscal years 2007 and 2006 was $393,553,466 and $382,220,324 respectively.

17. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The System participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plan are administered by the Department of Human Resource Management, and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bonds, automobile, and air and watercraft plans. The System pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

A Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management, covers the employees of the VCCS. The Faithful Performance Duty Bond provides coverage with liability limits of $500,000 for each occurrence.

18. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program which provides post-employment life insurance to eligible retired and terminated employees. The Commonwealth also provides health care credit against the monthly insurance premiums of its retirees who have at least 15 years of state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has four major component units—Northern Virginia Community College Educational Foundation, Mountain Empire Community College Educational Foundation, Patrick Henry Community College Foundation, and Southwest Virginia Community College Educational Foundation. Additionally, the System has twenty-three non-major component units—Blue Ridge Community College Educational Foundation, Central Virginia Community College Educational Foundation, Dabney S. Lancaster Community College Educational Foundation, Danville Community College Educational Foundation, Eastern Shore Community College Educational Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Educational Foundation, J. Sargeant Reynolds Community College Real Estate Foundation, John Tyler Community College Foundation, Lord Fairfax Community College Educational Foundation, New River Community College Educational Foundation, Paul D. Camp Community College Educational Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside Virginia Community College Educational Foundation, Thomas Nelson Community College Educational Foundation, Tidewater Community College Educational Foundation, Tidewater Community College Real Estate Foundation, Virginia Highlands Community College Educational Foundation, Virginia Western Community College Educational Foundation, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and Community Colleges of Virginia Educational Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements.

VIRGINIA COMMUNITY COLLEGE SYSTEM FOUNDATIONS
STATEMENT OF NET ASSETS
As of June 30, 2007

	Northern Virginia Community College Foundation	Mountain Empire Community College Educational Foundation	Patrick Henry Community College Foundation	Southwest Virginia Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
ASSETS						
Total current assets	$ 4,320,548	$ 23,542	$ 769,417	$ 3,680,149	$22,308,135	$ 31,101,791
Noncurrent assets:						
Other noncurrent assets	10,604,268	9,273,557	11,050,030	8,852,779	67,733,327	107,513,961
Capital assets, net	-	2,435	-	3,407,317	8,302,810	11,712,562
Total noncurrent assets	10,604,268	9,275,992	11,050,030	12,260,096	76,036,137	119,226,523
Total assets	$14,924,816	$ 9,299,534	$11,819,447	$15,940,245	$98,344,272	$150,328,314
LIABILITIES						
Total current liabilities	$ 2,147,860	$ 26,149	$ 318,740	$ -	$ 3,758,177	6,250,926
Noncurrent liabilities:						
Long-term liabilities	-	-	-	-	4,359,688	4,359,688
Other noncurrent liabilities	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	4,359,688	4,359,688
Total liabilities	$ 2,147,860	26,149	$ $318,740	$ -	$ 8,117,865	$ 10,610,614
NET ASSETS						
Invested in capital assets, net of related debt	$ -	$ 2,435	$ -	$ 3,407,317	$ 4,202,810	$ 7,612,562
Restricted for:						
Nonexpendable	2,519,885	3,627,809	4,889,452	-	34,567,730	45,604,876
Expendable	3,387,902	996,211	4,324,276	8,168,806	34,613,079	51,490,274
Unrestricted	6,869,169	4,646,930	2,286,979	4,364,122	16,842,788	35,009,988
Total net assets	$12,776,956	$9,273,385	$11,500,707	$15,940,245	$90,226,407	$139,717,700

VIRGINIA COMMUNITY COLLEGE SYSTEM FOUNDATIONS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	Northern Virginia Community College Foundation	Mountain Empire Community College Educational Foundation	Patrick Henry Community College Foundation	Southwest Virginia Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
Total operating revenues	$ 1,327,870	$ 762,275	$ 1,530,398	$ 1,996,683	$12,147,095	$ 17,764,321
Total operating expenses	1,249,759	516,197	1,348,165	1,027,272	21,919,072	26,060,465
Operating income (loss)	78,111	246,078	182,233	969,411	(9,771,977)	(8,296,144)
Nonoperating revenues (expenses):						
Investment income	562,603	722,611	1,217,021	1,836,257	3,759,064	8,097,556
Other nonoperating revenue (expenses)	-	-	-	-	(262,778)	(262,778)
Net nonoperating revenue	562,603	722,611	1,217,021	1,836,257	3,496,286	7,834,778
Income before other revenues, expenses gains or losses	640,714	968,689	1,399,254	2,805,668	6,275,691)	(461,366)
Capital gifts, grants and contracts	-	-	-	-	16,628,450	16,628,450
Additions to permanent and term endowments	83,423	354,750	306,504	-	5,647,818	6,392,495
Increase (decrease) in net assets	724,137	1,323,439	1,705,758	2,805,668	16,000,577	22,559,579
Net assets – beginning of year	12,052,819	7,949,946	9,794,949	13,134,577	74,225,830	117,158,121
Net Assets – end of year	$12,776,956	$9,273,385	$11,500,707	$15,940,245	$90,226,407	$139,717,700

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Walter J. Kucharski, Auditor **Richmond, Virginia 23218**

July 16, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

The State Board for Community Colleges

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Community College System** (System), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007, which collectively comprise the Virginia Community College System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the System, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the System, is based on the reports of the other auditors.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the System that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the Virginia Community College System as of June 30 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages eight through 15 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures 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 System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the section titled "Internal Control and Compliance Findings and Recommendations" to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters, entitled 'Properly Complete Employment Eligibility Verification Forms' and "Return Title IV Funds Timely" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

The System's response to the findings identified in our audit is included in the section titled "System Response." We did not audit the System's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The Virginia Community College System has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on July 22, 2008.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA COMMUNITY COLLEGE SYSTEM
James Monroe Building • 101 North Fourteenth Street • Richmond, Virginia 23219

July 28, 2008

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski:

We are providing this letter in response to your report on the audit of the financial records of the Virginia Community College System for the fiscal year ended June 30, 2007.

We confirm that we have received the findings and recommendations and have prepared the attached response and corrective action plan.

If you have any questions, please contact Dave Mair, VCCS Controller, at (804) 819-4929.

Sincerely,

Glenn DuBois
VCCS Chancellor

GD/dsm

Enclosure

cc: Ms. Karen Petersen
Mr. John Brilliant
Mr. Dave Mair

804-819-4901, FAX 804-819-4766, TDD 804-371-8504
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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Physical Security Over Sensitive and Mission-Critical Data

The Virginia Community College System Office does not maintain proper physical security over its Featherstone Data Center, which greatly increases the risk of compromise to the confidentiality, availability, and integrity of its mission-critical systems. The data center stores sensitive data for all 23 Virginia community colleges.

The System Office did not change the combination to the Featherstone server room door until twelve months after an employee with knowledge of the combination terminated. Physical security is an additional layer of access control. If the System Office does not maintain physical access control, then the System Office significantly increases the risk of weakening or compromising all other security measures.

The System Office should include its security requirements for the Featherstone and Greenfield Data Centers in its physical security standard. We recommend that management provide the necessary resources to improve the System Office's physical security over sensitive and mission-critical data and systems. In addition, the System Office should ensure that physical security training is included in its security awareness training program.

***Virginia Community College System Office Response*:**

The VCCS System Office proposes the implementation of two new processes to improve the physical security of the Featherstone location.

- Although external door codes to the facility have always been immediately changed when an employee leaves employment, a new process will be implemented where both the external combination to the facility and the combination to the server room will be changed when an employee leaves employment that has been granted access to the server room.
- A new procedure will be implemented requiring any guests to sign in at the Suite 200 entrance for Featherstone. Guests will be required to be accompanied by VCCS employees and be required to wear a guest badge.
- The server room at the Monroe Building will be modified to better secure that facility assuming funding is made available.
- All existing employee access to all ITS facilities will be reviewed and certified as part of the annual review of IT security access.

Implementation Date for Corrective Action: December 31, 2008

Responsible Position: Director Enterprise Services

Improve and Implement System Configuration Guidelines

The System Office does not properly secure its sensitive IT systems from security vulnerabilities, which increases the risk that sensitive and mission-critical data can be inappropriately accessed or manipulated and violates the principle of least privilege. The Principle of Least Privilege restricts access to any type of information or data to only those individuals that have a need to either use the information or data or have responsibility to ensure its availability.

At the Featherstone Data Center, we found that staff had not taken appropriate actions to secure the UNIX operating systems or restrict its use to only authorized personnel.

- Inappropriate file permissions existed allowing any user to change critical files
- Improper services permitted transmitting usernames and passwords in clear text
- An insecure account allows a user to log on without using a password
- An anonymous account allows the user to remain unidentified
- Inappropriate password settings allowed users to use the same password indefinitely
- Insecure startup settings provide hackers the opportunity to gain entry into a system

In addition, we found that the systems allow remote administration using the system's super user "root," instead of requiring logon at the console. We also found no documentation showing the installation date for current system patches, approval of system patches prior to updating the production servers, and evidence of the annual configurations review. Two community colleges had settings, which allowed the storage of passwords on the operating system in clear text, which could severely impact the confidentiality of its data.

The System Office should correct the issues noted above and improve the system configuration guidelines. Management should provide the resources necessary to ensure improvement and implementation of the system configuration guidelines as soon as possible.

***Virginia Community College System Office Response*:**

The VCCS System Office Security Team will develop system configuration and hardening guidelines and will work in concert with Enterprise Services to implement. The Security Team will also adjust System Office Security Standards as necessary to ensure compliance with the requirements.

Implementation Date for Corrective Action: December 31, 2008

Responsible Position: Chief Information Security Officer

Review and Implement System Configuration Guidelines

Applicable to: Piedmont Virginia Community College
Thomas Nelson Community College

Piedmont Virginia and Thomas Nelson Community Colleges do not properly secure their sensitive IT systems, which increases the risk of compromising the confidentiality, integrity, and availability of its mission-critical data. The Colleges enabled an operating system setting, which allowed the storage of passwords o in near clear text, which could severely impact the confidentiality of their data.

The System Office provides configuration guidelines for the community colleges, which specifically require the colleges to disable this setting due to the security risk it poses.

Piedmont Virginia and Thomas Nelson should review and follow the System Offices' guidelines for properly setting the operating system configuration. Management should dedicate the necessary resources to ensure that their operating systems are secure as soon as possible.

Piedmont Virginia Community College Response:

Piedmont Virginia Community College corrected the windows domain setting for stored passwords immediately after being noted by APA. The college will establish a server configuration checklist to ensure compliance with System Office guidelines.

Implementation Date for Corrective Action: Checklist will be completed by September 1, 2008

Responsible Position: Information Security Officer

Thomas Nelson Community College Response:

TNCC does not dispute the operating system setting. However, we are confident that other settings such as firewall, intrusion detection software and our password policies protect system confidentiality and integrity even though the setting was enabled at the time of the audit. The setting on the Windows domain policy server was immediately disabled after the exception was discovered, while the auditors were still on campus, and will remain disabled.

Implementation Date for Corrective Action: Completed July 2008

Responsible Position: Vice President for Information Technology

Properly Complete Employment Eligibility Verification Forms

Applicable to: J. Sargeant Reynolds Community College
Northern Virginia Community College
Thomas Nelson Community College
Tidewater Community College

During fiscal year 2007, J. Sargeant Reynolds, Northern Virginia, Thomas Nelson, and Tidewater Community Colleges did not properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers (M-274). This guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three days of employment to show that they verified the employee's identity and employment eligibility at the point of hiring.

At J. Sargeant Reynolds, in our sample of eleven I-9 forms completed in fiscal year 2007, we noted the following non-compliance.

- three failed to list the Issuing Authority for the Document
- ten did not include the date the employee began employment under the Certification

At Northern Virginia, in our sample of 25 I-9 forms completed in fiscal year 2007, we found five I-9 forms correctly completed. In the remaining 20, we observed the following errors.

- two failed to sign and date Section 2 within three business days of when the employee began employment
- three failed to provide an expiration date or issuing authority on at least one identification source
- eleven failed to provide a date under the certification section
- three failed to provide a date on at least one identification source
- two failed to date Section 1
- two failed to provide issuing authority for at least one identification source
- two failed to provide document title or expiration date
- two failed to complete Section 2 and did not date the signature area to state when the employee began employment

At Thomas Nelson, in our sample of fourteen I-9 forms completed during fiscal year 2007, we noted the following errors.

- seven did not list the Issuing Authority for the Document used to verify employee's identity and employment eligibility
- two did not document the date for the Employee Information and Verification
- one did not document the Employee's Signature and Date for the Employee Information and Verification
- one did not document the Employee's Social Security Number
- one did not properly reflect employee's date of birth

At Tidewater, in our sample of fifteen I-9 forms reviewed for fiscal year 2007, we found nine I-9 forms correctly completed. In the remaining six, we observed the following errors.

- one form failed to list the first day of employment in Section 2
- one form failed to provide sufficient information from the verification documents, such as document number, expiration date, or issuing authority

- employee signed and dated one form after the employment start date listed in Section 2 on the I-9

We found that the errors were due to a lack of proper review of the forms and a misinterpretation of the instructions on the form by the employer. Therefore, we recommend that the Colleges review the I-9 process, train the appropriate staff on the requirements of completing I-9 forms, and develop a process for continuously reviewing the I-9 process to ensure compliance with federal regulations. The federal government has increased its enforcement efforts to ensure that all new employees are legally entitled to work in the United States, which makes having a good I-9 process in place more important than ever before.

J. Sargeant Reynolds Community College Response:

The college agrees with the above finding. Lack of compliance was due to turnover in the Human Resources staff and misinterpretation of guidelines in Section II of the I-9 Form. This issue has been corrected and training tools have been developed. The Human Resources staff completed the training and new HR employees will complete the training within the first three (3) days of employment.

Implementation Date for Corrective Action: June 13, 2008

Responsible Position: Director of Human Resources

Northern Virginia Community College Response:

Northern Virginia Community College agrees with the finding. The College has strengthened its procedures for processing I-9 paperwork and has instituted audit checks to ensure correctness.

Implementation Date for Corrective Action: July 1, 2008

Title of Positions Responsible for Corrective Action: Director Human Resources and Payroll Manager

Thomas Nelson Community College Response:

The TNCC Human Resources Department completed a review of the fourteen I-9 forms reviewed during the APA audit. We concurred with the APA's findings; however, we requested that the following points be included as part of our response:

- Thomas Nelson Community College works diligently to insure that only individuals eligible to work in the United States are hired by TNCC.
- All questions concerning VISAs are discussed routinely with the VCCS's legal counsel.
- TNCC procedures require that copies of any documentation used to verify an individual's identity and/or eligibility to work in the USA are attached to the individual's I-9 form. Copies of these documents were attached to the I-9s reviewed in the audit.
- Although "Social Security Administration" was not listed as the Issuing Authority on several I-9s, a copy of the original Social Security Card for each individual was attached to their I-9 and we annotated that a social security card and the number had been provided.

To ensure that TNCC is in compliance with federal regulations, the Human Resources Department has implemented the following corrective action:

- I-9s for all current employees will be reviewed to ensure that the forms are completed in accordance with federal regulations.
- The Human Resources Department staff has reviewed the Department of Homeland Security's instructions on completing the I-9 form and a copy of these instructions is maintained at the desk of each employee.

Implementation Date for Corrective Action: July 31, 2008

Responsible Position: Human Resources Manager

Tidewater Community College Response:

The College will provide training/re-training on the requirements of completing I-9s to all Human Resources staff and to those employees on the four campuses whose responsibilities include completing the I-9 forms.

Implementation Date for Corrective Action: Training will be accomplished by August 20, 2008.

Responsible Position: Director of Human Resources

Improve Internal Controls over CIPPS Access

Applicable to: J. Sargeant Reynolds Community College

J Sargeant Reynolds did not delete access to the Commonwealth Integrated Payroll and Personnel System (CIPPS) for three out of four terminated employees timely. J. Sargeant Reynolds did not remove one employee with leave update capabilities from CIPPS until three months after termination and did not remove another employee with CIPPS certify access until six months after termination. The final employee terminated employment in September 2007 but still had CIPPS leave access in April of 2008. Although the college submitted a CIPPS Security Authorization form in January 2008 to delete access, J. Sargeant Reynolds did not follow up to ensure the Department of Accounts (DOA) performed the deletion. The college does not have agency specific CIPPS access policies and procedures in place to ensure timely removal of terminated employees.

CAPP Manual, section 50210 states that the CIPPS Security Officer is to manage CIPPS access of agency personnel by ensuring that management completes the CIPPS Security Authorization Request form timely to reflect any new actions such as additions, changes, and deletions. A lack of proper internal controls over CIPPS access exposes the agency to the potential risk of unauthorized viewing and changes to sensitive employee leave and payroll data.

J. Sargeant Reynolds should develop in-house procedures governing the levels of security requested. Additionally, the timely submission of requests to delete access for terminated/transferred employees is imperative to safeguard the assets of the Commonwealth and employees' personal information. The CIPPS Security Officer should also follow up with DOA to ensure timely removal of CIPPS access once the Security Officer has submitted the request. The procedures should also include periodic reviews of user access to ensure the levels assigned are appropriate. The Security Officer should maintain copies of approved CIPPS Security Authorization Requests.

J. Sargeant Reynolds Community College Response:

J. Sargeant Reynolds agrees that some CIPPS access were not deleted timely due to significant changes in personnel that were involved during the specific time. Those personnel changes have stabilized. Procedures have been updated to address timely CIPPS access deletion as well as the level of CIPPS access given to an employee. The college has a policy (3-16) regarding the termination of employees which addresses the need for notification of terminations and system access changes. The Separating Employee Checklist form which is addressed in policy 3-16 will be revised to include a statement that says "The Director of Financial Operations acknowledges that paperwork to delete relevant financial system access has been submitted. Follow up will also be performed by the director to ensure system deletion."

Implementation Date for Corrective Action: Completed July 2008

Responsible Position: Director of Financial Operations

Improve Controls Over CARS Access

Applicable to: Thomas Nelson Community College

Thomas Nelson does not have adequate controls over granting access to individuals to the Commonwealth's Accounting and Reporting Systems (CARS). Thomas Nelson has granted unreasonable access to individuals, allowing one individual to enter and release numerous batches without review, granted access to an individual not on the Authorized Signatories Form, and failed to remove employees timely upon termination.

Thomas Nelson granted one employee access to enter and release batches, and the individual had done so at least 23 times in fiscal year 2007. This same individual was not on the Authorized Signatories Form as required by the Department of Accounts. In addition, Thomas Nelson did not delete timely CARS access for four of six individuals who terminated in 2007, allowing them access to CARS for up to six months after their termination from the college.

The CAPP Manual, section 70200 gives responsibility to the CARS Security Officer to establish internal controls over CARS access. A lack of proper internal controls and separation of duties puts Thomas Nelson at risk of having improper or falsified expenditures or vouchers that did not receive proper approval. Thomas Nelson does not have agency specific policies and procedures regarding CARS access.

Thomas Nelson should establish CARS access procedures to include granting, monitoring, and deleting access timely. These policies should also include a separation of duties for entering and approving batches. Thomas Nelson should consider not granting access that allows individuals to enter and approve transactions and instead separate duties so that staff can enter or approve transactions, but not both to ensure proper approval of CARS transactions. The CARS Security Officer should also follow up with DOA to ensure timely removal of CARS access. The procedures should also include periodic reviews of user access to ensure the levels assigned are appropriate.

Thomas Nelson Community College Response:

TNCC has given one accountant the authority to enter and release batches in CARS. Procedures are in place where the business office manager reviews and approves batches prior to the batch being released in CARS. After entry, the Business Office Manager will review the data entry and initial for completeness and correctness. TNCC intends to maintain the individual's access. An updated Authorized Signatories Form will be completed and submitted to reflect the proper level of security.

TNCC agrees that one employee's CARS access was not terminated after separation from the business office. That employee's access has been terminated. The TNCC employee separation process is being reviewed to ensure that all terminated employees with access to all systems are removed in a timely manner after separation. Additionally the process will be modified to include periodic reviews of employees with current system access.

Implementation Date for Corrective Action: Authorized Signatories Form, Procedures and Employee Access Completed. Level Assignment Reviews by August 30, 2008

Responsible Position: Vice President for Administration & Finance

Improve Internal Controls over SIS Access

Applicable to: Thomas Nelson Community College

Thomas Nelson does not have adequate controls over granting access to the college's Student Information System. Four of the 17 employees tested with SIS access had no form of SIS authorization documented and seven employees had access that exceeded that individual's job responsibilities. In addition, 15 of the 17 employees tested did not have completed SIS authorization forms but had obtained access through email requests, which the college's policies allow. However, Thomas Nelson did not retain copies of the email request, as their policy requires.

Based on Thomas Nelson's Information Technology Access Determination and Control policy, "system access should be granted via a formal auditable and documented process, and should be accompanied by security training that is commensurate to one's duties and responsibilities. The documented process should also address a periodic check to verify that accesses which have been granted in the past are still appropriate."

Without SIS authorization forms, there is no clear audit trail of who requested and approved system access. Granting employees' access that does not match their job responsibilities potentially allows access to confidential student information and the ability to make changes to student accounts or even enroll and delete student records. The college policy states that the system access request "process may be done using either email or hard copy, but the Information Security Officer will retain a hard copy of the request for as long as the employee has access plus three years past termination of the specific administration system."

Thomas Nelson should follow its policies to grant SIS access and retain a hard copy of requests. Thomas Nelson should revise its policy to require the requestor to document the employees' position and need for access requested. Thomas Nelson should only grant access if necessary for the employees' job functions.

Thomas Nelson Community College Response:

We agree with the APA recommendation that we follow our policies to grant SIS access. TNCC did provide Student Information System Annual Security Review forms or e-mail documentation for system access for 14 of the 17 employees tested. The 3 remaining employees were temporary or work study hires and we are currently obtaining annual security review forms for these individuals.

Due to resource limitations in many departments, staff are cross trained and may be required to perform tasks that may not conform to their job title/role but are incorporated as part of their job responsibilities as indicated on their Employee Work Profile or for faculty as part of their assigned duties. Department supervisors complete, approve and forward SIS access forms indicating need for system access to the data owner who has final approval. Current SIS access forms have been modified requiring supervisors to indicate the reason the particular level of access is being requested. Once final approval is obtained, the Security Officers grant access and maintains the access forms in a file available for review.

TNCC will review all access policies to ensure that proper documentation is completed and retained for system access.

Implementation Date for Corrective Action: August 30, 2008

Responsible Positions: Vice President for Information Technology & Vice President for Administration & Finance

Return Title IV Funds Timely

Applicable to: Central Virginia Community College
Danville Community College
Patrick Henry Community College

During fiscal year 2007, Central Virginia, Danville, and Patrick Henry Community Colleges did not return Title IV student financial aid funds timely to the Department of Education. Danville returned funds from the fall 2006 and spring 2007 semesters from 11 days to six months late. Patrick Henry Community College returned Title IV student financial aid funds for 26 students 3 days to 12 months late. During the spring 2007 semester, Central Virginia returned funds for 2 out of 10 students late and had not returned one student's amount at all. Central Virginia's original calculations for the spring semester were incorrect resulting in no refunds. However, during a later review, the Financial Aid Officer found the calculation errors, recalculated the refunds, and processed the refunds. The Central Virginia Student Financial Aid Office implemented improved procedures in January 2007 in response to issues we found in this area in the previous audit. However, implementation of these controls does not appear adequate to prevent improper calculations and untimely returns. There are no questioned costs reported because the colleges have returned all identified funds or the amount was less than $10,000.

According to 34 CFR 668.22 and the Higher Education Reconciliation Act of 2005, the institution must return the Title IV funds for which it is responsible as soon as possible, but no later than 45 days after the date of the institution's determination that the student withdrew.

The Financial Aid Coordinator and Business Office Manager at each college should develop and implement controls to ensure timely return of Title IV funds to the Department of Education within the 45-day time limit. A failure to comply with the Federal regulations and the Student Financial Aid

Handbook could significantly affect those students involved in the Title IV process as well as financial aid available for disbursement to other eligible students.

Central Virginia Community College Response:

Central Virginia Community College has implemented the following controls to prevent improper calculations and untimely returns.

- The Financial Aid Office will review the dates that Admissions and Records Office inputs into the Academic Calendar on an annual basis. This will prevent incorrect dates from being used in the calculations.
- The VX_FA_STUDENT WITHDRAWN Query will be run on a weekly basis after the refund period. This will identify students that have withdrawn from all courses.
- The PeopleSoft Return of Title IV Funds worksheet will be completed after the VX_FA_STUDENT_WITHDRAWN Query has been run. The list of students that refunds are due on will be completed and initialed by the Financial Aid Officer and submitted to the Accounting Office. The Accounting Office will complete the refund process and initial the report noting the date completed and return to the Financial Aid Office.

Implementation Date for Corrective Action: July 1, 2008

Responsible Position: Financial Aid Director

Danville Community College Response:

Danville Community College will ensure that the Title IV funds owed to the U. S. Department of Education are returned within 45 days of the date that the College (Financial Aid Office) determines the student withdraws. Policies have been updated and procedures revised to ensure this process will be handled effectively. Both the Financial Aid Office and the Business Office have developed a return to Title IV business process form for staff to follow. The form documents the detail requirements for every step of the return to Title IV process. Adherence to revised policies will ensure that a time line is followed to make sure the Business Office handles the return to Title IV properly.

Implementation Date for Corrective Action: November 2, 2007

Responsible Position: Financial Aid Coordinator

Patrick Henry Community College Response:

After a review of the process to return Title IV funds within the required time, we believe the finding was due to the absence of an established procedure and poor communication between the Financial Aid Office and the Business Office.

The Financial Aid Administrative Specialist reviews student information on a weekly basis and documents students who are no longer entitled to the funds. A spreadsheet is maintained on the shared drive which is accessible to both the Financial Aid Office and Business Office as part of the shared documentation. The Financial Aid Administrative Specialist notifies the Financial Aid Coordinator that the student information has been reviewed awaiting approval. The Financial Aid Coordinator reviews and approves the reports and then notifies the Business Office. The Accounts Receivable Specialists will then proceed with the process to return the funds to Title IV and indicate on the spreadsheet that the process has posted. The Business Manager will monitor this process to ensure that the funds are returned in a timely manner.

Implementation Date for Corrective Action: December 15, 2007

Title of Positions Responsible for Corrective Action: Financial Aid Coordinator and Business Manager

Properly Reconcile Bank Accounts Monthly

Applicable to: Thomas Nelson Community College

Thomas Nelson has not followed up on outstanding checks, some of which are over four years old. Thomas Nelson also has over $4,000 in deposits made during fiscal year 2007 that were still in transit as of March 2008. At the time of the audit, Thomas Nelson has taken no action on the deposits to determine the status. Personnel performing the current bank reconciliation do not know how to resolve and correct errors or problems related to deposits in transit and outstanding checks.

Failing to clear outstanding items from the bank reconciliation causes the college to carry a continued and increasing un-reconciled balance. In addition, it provides opportunities for fraud to occur and go undetected. The holder of unreported unclaimed property could face civil penalties and interest for each day Thomas Nelson withholds the report and remittance.

Thomas Nelson business office should teach its employees how to perform complete and accurate bank reconciliation and resolve outstanding items within two months. If necessary, the business office should employ individuals who can complete this work in an accurate and timely manner.

Thomas Nelson Community College Response:

TNCC has reviewed the Department of Treasury's Unclaimed Property policy and has developed procedures to properly perform due diligence and transfer unclaimed funds to the State. Unclaimed Property reports were uploaded to the Department of Treasury – Division of Unclaimed Property on June 24, 2008.

Procedures have been modified to ensure that outstanding reconciling items including deposits are identified and cleared in a timely manner. Current reconciliation procedures require the employee performing the reconciliation to identify all outstanding items on the monthly reconciliation. If an outstanding check is older than 180 days, we attempt to contact the payee to ascertain if the check was lost, stolen, or not cashed. If a response from the payee is received the original check is voided and a new check is re-issued. If no response is received from the payee, the funds will be forwarded to the Division of Unclaimed Property at the end of each fiscal year.

Implementation Date for Corrective Action: July 30, 2008

Responsible Position: Vice President for Administration & Finance

Properly Record Assets in the System

Applicable to: Tidewater Community College

Tidewater had one asset in its inventory that could not be located. In addition, two of the five assets tested did not have a tag to identify the asset number. While the college appears to have performed required inventories, they did not maintain adequate inventory records.

The lack of accurate inventory records reduces Tidewater's ability to properly manage and account for their capital assets. Tidewater should conduct a thorough investigation of all assets to ensure that personnel are properly tagging and recording assets in the capital asset system.

Tidewater Community College Response:

The college established a new Warehouse Manager position and filled the position in December 2007. One of the main responsibilities of this position is to ensure that accurate inventory records are maintained so the college can properly manage and account for our capital assets.

The college conducted a thorough investigation of all assets in June 2008 to ensure assets are properly tagged and recorded in the capital asset system. The Warehouse Manager and his staff are currently updating the capital asset system to correct discrepancies that were found during this investigation and physical inventory.

Implementation Date for Corrective Action: September 1, 2008

Responsible Position: Director of Materiel Management.

COMMUNITY COLLEGE PRESIDENTS

As of June 30, 2007

Blue Ridge Community College	Dr. James R. Perkins
Central Virginia Community College	Dr. Darrel W. Staat
Dabney S. Lancaster Community College	Dr. Richard R. Teaff
Danville Community College	Dr. B. Carlyle Ramsey
Eastern Shore Community College	Dr. Cheryl Thompson-Stacy
Germanna Community College	Dr. David Sam
J. Sargeant Reynolds Community College	Dr. Gary L. Rhodes
John Tyler Community College	Dr. Marshall W. Smith
Lord Fairfax Community College	Dr. John Capps
Mountain Empire Community College	Dr. Terrance Suarez
New River Community College	Dr. Jack M. Lewis
Northern Virginia Community College	Dr. Robert Templin
Patrick Henry Community College	Dr. Max F. Wingett
Paul D. Camp Community College	Dr. Douglas Boyce
Piedmont Virginia Community College	Dr. Frank Friedman
Rappahannock Community College	Dr. Elizabeth H. Crowther
Southside Virginia Community College	Dr. John J. Cavan
Southwest Virginia Community College	Dr. Mark Estepp
Thomas Nelson Community College	Dr. Charles A. Taylor
Tidewater Community College	Dr. Deborah M. DiCroce
Virginia Highlands Community College	Dr. F. David Wilkin
Virginia Western Community College	Dr. Robert H. Sandel
Wytheville Community College	Dr. Charlie White