



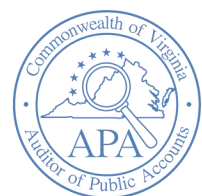
# JAMES MADISON UNIVERSITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

We have audited the basic financial statements of James Madison University as of and for the year ended June 30, 2014, and issued our report thereon, dated June 19, 2015. Our report, included in James Madison University's basic financial statements, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the University's website at [www.jmu.edu](http://www.jmu.edu).

Our audit of James Madison University for the year ended June 30, 2014, found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Our audit also included testing over the major federal program of the Student Financial Assistance Programs Cluster for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement; and found internal control findings requiring management's attention and instances of noncompliance in relation to this testing.

## –TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-3
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	4-6
UNIVERSITY RESPONSE	7
UNIVERSITY OFFICIALS	8

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Policies and Processes for Granting and Restricting Elevated Workstation Privileges**

#### *Internal Control Weakness and Compliance Finding*

James Madison University (University) does not have an adequate policy, procedure, or process for managing and restricting unnecessary and elevated workstation permissions as required in its information security standard, ISO 27002:2013. Not having a formal process for granting and restricting elevated workstation privileges increases the risk of an end user unintentionally downloading and installing malware on their computer. Once installed, this malware may propagate throughout the University's internal computers and can make them unavailable. Certain malware, with the design to collect information processed on an infected computer and send it to a server outside the organization, can make confidential data available to unauthorized entities.

We have communicated the details of this finding to management in a separate document marked Freedom of Information Act (FOIA) Exempt under Section 2.2-3705.2 of the Code of Virginia, due to its sensitivity and description of security controls.

While the University is running a mature information security program, this finding weakens the layered information security controls protecting confidential and mission critical data. The University should dedicate the necessary resources to further evaluate and implement the controls described in the FOIA Exempt recommendation and incorporate them into their information security program.

### **Improve Reporting of Pell Grant Disbursements**

#### *Internal Control Weakness and Compliance Finding – Federal*

The University's Office of Financial Aid and Scholarships did not report disbursements of student financial aid to the U.S. Department of Education timely using the Common Origination and Disbursement (COD) System. Specifically, for six of 30 students tested, the University reported the disbursements to the Department of Education 20 days prior to disbursing the financial aid to the students.

In accordance with 78 Federal Register 40733, the University cannot report disbursements to COD seven days or more before actual disbursement.

Upon discussing the timely submission of disbursement information with management of the University, the Office of Financial Aid and Scholarships developed a PeopleSoft query that will identify students with pending Pell Grant disbursements in PeopleSoft. Running this new query weekly should help the University to report disbursements of student financial aid to the U. S. Department of Education in compliance with federal regulations.

## **Improve Documentation of Monthly Reconciliations of Direct Loans**

### *Internal Control Weakness and Compliance Finding – Federal*

The University did not adequately document federal direct loan reconciliations upon receipt of the School Account Statements (SAS) from the Common and Origination Disbursement (COD) System. The University reviews the information on their system and online through COD but does not retain the information reviewed. Consequently, the auditor could not perform detailed test work to assess the effectiveness of the monthly SAS report reconciliations.

In accordance with 34 CFR 685.300(b)(5), Universities must report all loan disbursements and submit required records to the Direct Loan Servicing System via COD within 30 days of disbursement. Each month, COD provides institutions with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records. The institution is required to reconcile these files to the financial records of the institution.

The University should retain information from COD and PeopleSoft with the monthly SAS reports to help provide an adequate audit trail. Additionally, the University should implement a review process to ensure reconciling items are resolved appropriately.

## **Promptly Remit Unclaimed Financial Student Aid Funds**

### *Internal Control Weakness and Compliance Finding – Federal*

The University did not return unclaimed Title IV funds within 240 days for six of ten students tested. Specifically, the University took up to 262 days before returning the funds to the U.S. Department of Education. The University allowed too much time for students to respond to due diligence efforts before requesting funds from the State Treasury to return to the U.S. Department of Education.

Code of Federal Regulations Section 34 CFR 668.164(h) requires the University to return unclaimed financial student aid funds to the Federal program or lender within 240 days of issuing a refund check to a student.

The University Business Office should reduce the amount of time allowed for students to respond to due diligence efforts once the funds are returned to the University by its third party refund processor. Reducing the allowable student response time for due diligence efforts will help ensure compliance with federal regulations.

## **Improve Reporting to National Student Loan Data System**

### *Internal Control Weakness and Compliance Finding – Federal*

The University did not report three graduating students to the National Student Loan Data System (NSLDS) within 30 days of the University's determination of their status change. The delay occurred because the University only sends degree transmissions to NSLDS three times per year.

In accordance with Code of Federal Regulations, Title 34 CFR 685.309(b)(2), unless the University expects to submit its next student status confirmation report within 60 days, the University must notify the U.S. Department of Education within 30 days of an enrollment change.

The accuracy of Title IV student loan records depends heavily on the accuracy of the enrollment information reported by schools. Schools that do not comply with enrollment reporting provisions are at risk for fines or revocation of participation in Title IV programs.

To help prevent delays from occurring in the future, the University Registrar's office should increase the frequency of when they send degree transmissions to the NSLDS. Increasing the frequency of transmissions will help ensure compliance with the Code of Federal Regulations and reduce the risk for fines or other penalties.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

June 19, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Visitors  
James Madison University

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of **James Madison University** (the University) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated June 19, 2015. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component unit of the University, which was audited by another auditor in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting entitled "Improve Policies and Processes for Granting and Restricting Elevated Workstation Privileges," "Improve Reporting of Pell Grant Disbursements," "Improve Documentation of Monthly Reconciliations of Direct Loans," "Promptly Remit Unclaimed Financial Student Aid Funds," and "Improve Reporting to National Student Loan Data System," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 and which are described in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings entitled "Improve Policies and Processes for Granting and Restricting Elevated Workstation Privileges," "Improve Reporting of Pell Grant Disbursements," "Improve Documentation of Monthly Reconciliations of Direct Loans," "Promptly Remit Unclaimed Financial Student Aid Funds," and "Improve Reporting to National Student Loan Data System."

### **The University's Response to Findings**

We discussed this report with management at an exit conference held on June 19, 2015. The University's response to the findings identified in our audit is described in the accompanying section titled "University Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



### **Purpose of this Report**

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

AUDITOR OF PUBLIC ACCOUNTS

LDJ/alh



June 23, 2015

Martha S. Mavredes, CPA  
Auditor of Public Accounts  
PO Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes:

We have reviewed the audit findings and recommendations resulting from the fiscal year 2014 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference.

In response to the federal internal control weaknesses and compliance findings, James Madison University acknowledges and concurs with the audit findings and has completed, or is in the process of implementing, the recommendations made by the APA. Detailed responses and corrective action taken can be located within the Commonwealth of Virginia's Single Audit Report for the year ended June 30, 2014, published on APA's website: [http://www.apa.virginia.gov/APA Reports/Reports.aspx](http://www.apa.virginia.gov/APA%20Reports/Reports.aspx).

As to the internal control weakness and compliance finding for elevated workstation privileges, the University will dedicate the necessary resources to further evaluate controls related to management of elevated workstation rights and will implement appropriate changes into the information security program.

Sincerely,

John F. Knight  
AVP for Finance

Office of  
ASSISTANT VICE PRESIDENT FOR FINANCE

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## UNIVERSITY OFFICIALS

JAMES MADISON UNIVERSITY  
Harrisonburg, Virginia

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Rector

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Vice Rector

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