

VIRGINIA COLLEGE SAVINGS PLAN

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

We have audited the basic financial statements of the Virginia College Savings Plan as of and for the year ended June 30, 2011, and issued our report thereon, dated December 2, 2011. Our report, included in the Virginia College Savings Plan's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov.

Our audit of the Virginia College Savings Plan for the year ended June 30, 2011, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

We have two efficiency observations for which management should consider altering the agency's operations to enhance its use of resources. These observations deal with Improve Reconciliation and Financial Reporting and Implement Electronic External Manager Reconciliations.

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EFFICIENCY OBSERVATIONS

Improve Reconciliation and Financial Reporting

During the past year, the Virginia College Savings Plan (Plan) implemented a new accounting system that should significantly improve the ability to produce financial statements. However, the past year has created a learning experience for accounting and financial statement staff, which indicates that some fundamental changes are necessary to the operation of the Plan.

While the new accounting system offers a number of chances to improve processing by automating workflow and enhancing reporting, we believe there are some fundamental changes that need to occur before the Plan can utilize these other enhancements. We believe that the Plan needs to re-examine and re-work its basic approach to recording and reconciling transactions.

The recording and reconciling of transactions has been an evolving process at the Plan, yet some of these processes remain unchanged since the Plan started. We believe the new system has highlighted the inefficiencies and inaccuracies in many of the reconciliation processes, and the labor intensity in others. We have issued a separate point on the most labor intense process, which is the reconciliation of investment managers.

The Commonwealth's Accounting and Reporting System (CARS) and the Plan's new system both rely on effective and complete monthly reconciliations to ensure the accuracy and completeness of information. During this audit, it has become apparent that those monthly reconciliations are not complete, and in some cases inaccurate. These problems are more than just a new system implementation, but reflect some fundamental misunderstandings as to how the systems interface and exchange information.

The Plan should complete all reconciliations within two weeks after the close of the month. Further, complete and accurate monthly reconciliations should allow the Plan to complete the year-end closing reconciliation within a week of the State Comptroller closing CARS for the year, if not sooner.

While automating the process may speed the reconciliations, the interfaces between CARS and the new accounting system already exist to allow this process. However, we cannot find a reasonable explanation for the current timeframe that takes year-end reconciliations into October.

Implement Electronic External Manager Reconciliations

The Plan uses hardcopy statements from its external investment managers and investments custodian to perform manual monthly reconciliations. These hardcopy manual reconciliations fill numerous binders and allow for potential filing errors. As part of our audit, we conducted a review of a sample of these monthly reconciliations and noted some opportunities that we believe can improve efficiencies and potentially enhance Plan operations. These observations include the following, and as Plan reviews its operations, additional opportunities for improvement could arise.

- Request and maintain electronic statements from the investment managers and investments custodian.
- Perform and review the reconciliations completely in electronic format, including the reconciliation worksheet and checklist. Also, consider including ways to automate the process if possible.

- File and maintain the reconciliation documentation in electronic format in a secured location; including the statements, reconciliation worksheets, checklists, and other supporting documentation.

Employees within the Investment Operations division should work together to fully perform the reconciliation process in electronic format, and consider ways to automate the process. By doing such, Plan will be able to improve efficiencies and potentially enhance its' operations.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 2, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia College Savings Plan

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

We have audited the basic financial statements of the **Virginia College Savings Plan** as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. 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.

Internal Control Over Financial Reporting

Management of the Virginia College Savings Plan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Virginia College Savings Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia College Savings Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Virginia College Savings Plan'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia College Savings Plan'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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Virginia College Savings Plan's response to the efficiency findings identified in our audit as shown in the section titled "Efficiency Findings" is included in the section titled "Agency Response." We did not audit the Virginia College Savings Plan's response and, accordingly, we express no opinion on it.

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, Board members, 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 December 8, 2011.

AUDITOR OF PUBLIC ACCOUNTS

WJK/clj



COMMONWEALTH of VIRGINIA

VIRGINIA COLLEGE SAVINGS PLAN
9001 Arboretum Parkway, Richmond, VA 23236

Mary G. Morris
Chief Executive Officer

(804) 371-0766

December 6, 2011

Mr. Walter Kucharski
Auditor of Public Accounts
101 N. 14th Street
Richmond, Virginia 23236

Dear Mr. Kucharski,

I would like to thank you and your representatives for their attention to our operations specifically their efficiency observations during this year's annual audit. Executive management is committed to ensuring our operations are as efficient as possible. As a result, we concur with your observations and have provided additional information on each below.

Improve Reconciliation and Financial Reporting

We acknowledge that the year-end close, financial reporting, and reconciliation processes have taken longer than anticipated due to the Banner Finance implementation and CARS interface projects. This has also impacted the annual audit process for FY2011. We also acknowledge that some of these year-end closing issues pre-date the Banner Finance implementation. However, we remain confident in the accuracy of our fiscal year 2011 financial statements and commit to improving efficiencies in these processes.

We agree that all reconciliations should be completed within two weeks after the close of the fiscal month. Management and staff are committed to finalizing chart of account and coding changes in FY2012, formalizing reconciliation processes and training staff to ensure timely monthly reconciliations. In addition, after the Banner Finance implementation and the CARS interface project have been completed, all processes involving the Banner systems will be fully reviewed. Finally, steps will be taken prior to FY 2013 to change processes for developing the FY 2012 financial statements.

Implement Electronic External Manager Reconciliations.

We agree that several processes within the Investment Operations group are paper intensive. We will begin requesting electronic statements from every investment manager. In addition, we will review our reconciliation processes in their entirety. This review will also include an analysis for automation. While it is possible to apply these procedures and controls in an automated fashion, we will need to consider costs associated with development and implementation as it would require us to receive a variety of data feeds, and develop custom programming.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mary G. Morris', followed by a long horizontal line.

Mary G. Morris, Chief Executive Officer

12/6/11

Date

VIRGINIA COLLEGE SAVINGS PLAN
Richmond, Virginia

BOARD MEMBERS

As of June 30, 2011

Mr. Shawn McLaughlin, Chairman

Mr. Vincent Carpenter, Vice-Chairman

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CHIEF EXECUTIVE OFFICER

Ms. Mary G. Morris