



VIRGINIA COMMUNITY COLLEGE SYSTEM

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2023

Auditor of Public Accounts
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AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Community College System (System) as of and for the year ended June 30, 2023, and issued our report thereon, dated May 29, 2025. Our report, included in the System's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the System's website at www.vccs.edu. Our audit of the System found:

- the financial statements are presented fairly, in all material respects;
- two deficiencies related to financial reporting that we consider to be material weaknesses in internal control;
- additional internal control findings requiring management's attention; however, we do not consider them to be material weaknesses;
- instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- adequate corrective action with respect to prior audit findings identified as complete in the Status of Prior Findings included in the Appendices.

Our audit also included, in support of reaffirmation of accreditation, testing over the Student Financial Assistance federal program as described in the U.S. Office of Management and Budget Compliance Supplement; and found internal control findings requiring management's attention and instances of noncompliance at the following colleges:

- Blue Ridge Community College;
- Paul D. Camp Community College;
- Eastern Shore Community College; and
- Rappahannock Community College.

Beginning with fiscal year 2023, we updated our audit of the System's financial statements to be more reflective of risk and coverage over material financial statement line items and related amounts disclosed in the notes to the financial statements. To that end, we have instituted an additional area of review using an Internal Control Questionnaire (ICQ) process for System colleges with less risk and financial activity. Additionally, prior findings for colleges subject to the ICQ process, except those related to student financial aid, are not included in the Status of Prior Findings as we will conduct follow-up procedures on those findings as part of the ICQ process and will issue a separate report.

In the section titled “Internal Control and Compliance Findings and Recommendations,” we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management’s responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendations.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Findings are grouped for the Virginia Community College System Office (System Office) and each individual college. The System Office is listed first because of its leadership over and involvement with the colleges' financial operations. The remaining colleges are listed based on the relative size of their financial activity across the system as follows:

- Northern Virginia Community College (Northern Virginia)
- Tidewater Community College (Tidewater)
- Brightpoint Community College (Brightpoint)
- Virginia Peninsula Community College (Virginia Peninsula)
- Virginia Western Community College (Virginia Western)
- J. Sargeant Reynolds Community College (Reynolds)
- Blue Ridge Community College (Blue Ridge)
- Germanna Community College (Germanna)
- Danville Community College (Danville)
- Piedmont Virginia Community College (Piedmont)
- Eastern Shore Community College (Eastern Shore)
- Patrick & Henry Community College (Patrick & Henry)
- New River Community College (New River)
- Paul D. Camp Community College (Camp)
- Rappahannock Community College (Rappahannock)
- Virginia Highlands Community College (Virginia Highlands)

To aid in the understanding of current and prior findings, there are three appendices to this report related to findings. The first two appendices contain lists of the current year's findings within this report. The first appendix lists the findings in the order they appear in this report, and the second appendix groups the findings by their respective topic. The third appendix provides the status of fiscal year 2017 through 2022 findings that we did not consider resolved prior to 2023. The prior findings in the third appendix have a follow-up disposition as of June 30, 2023, of either ongoing, complete, or deferred to future audits.

[Appendix IV](#) provides a description for each abbreviation and acronym used in the report to provide clarity and understanding surrounding the use of these terms.

SYSTEM OFFICE

2023-01: Improve Financial Reporting Review Process

Type: Internal Control

Severity: Material Weakness

The System Office's Fiscal Services Division (Fiscal Services) does not have an adequate review process as part of its financial statement preparation process to identify anomalies in information submitted by the System's colleges or to prevent or detect and correct a material misstatement in the financial statements on a timely basis. The lack of a sufficient review process resulted in various corrections to the financial statements detailed below.

Fiscal Services did not implement sufficient procedures to ensure colleges addressed the requirements of Governmental Accounting Standards Board (GASB) Statement No. 94, which prescribes the proper accounting and financial reporting for public-private and public-public partnerships and availability payment arrangements. Specifically, Fiscal Services did not have a process to evaluate whether colleges adequately reviewed and documented the details of agreements with contractors that provide dining services and/or operate bookstores to ensure the System properly accounted for the contracts within the financial statements.

When compiling information related to the System's external foundations, Fiscal Services relied on initial financial information from the colleges' foundation auditors and did not make subsequent adjustments to reflect the final audited version of each entity's financial statements. In addition, Fiscal Services did not have a process for comparing and evaluating schedules submitted by the foundations to each entity's audited financial statements and disclosures to ensure consistency in reporting and classification across foundations in the System's consolidated financial statements. As a result, Fiscal Services reported similar activity across foundations in various unrelated line items, which impacts the usability of the financial statements.

The lack of sufficient review process also resulted in the following corrections to the financial statements and financial statement disclosures:

- A \$40 million reclassification of grant funding provided for capital projects, which Fiscal Services incorrectly included in non-cash donated capital assets in the Statement of Cash Flows.
- An \$11.5 million adjustment to the beginning balance of cash and cash equivalents that Fiscal Services incorrectly reported as investment purchases on the Statement of Cash Flows.
- A \$9.5 million adjustment to reduce prepaid expenses and a \$275,650 adjustment to increase non-current prepaid expenses that Fiscal Services incorrectly reported on the Statement of Net Position.

- The addition of disclosures to the financial statements to accurately reflect related-party transactions between the System and external parties ranging from \$750,000 to \$8 million.
- An addition of \$44.9 million in total contractual commitments and \$19.2 million in unexpended contractual commitments within the commitments disclosure to reflect architectural and engineering and service contracts with external parties.

Management is responsible for designing and maintaining a system of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements in accordance with generally accepted accounting principles (GAAP). Misapplication or misinterpretation of GASB standards can result in inaccurate financial reporting, which can affect long-term planning and the decision making of individuals or the various colleges that rely on the reported financial information. GASB Concept Statement 1, Objectives of Financial Reporting, notes that “nothing material should be omitted from the information necessary to faithfully represent the underlying events and conditions nor should anything be included that would cause the information to be misleading.” Fiscal Services did not dedicate the necessary resources to develop additional procedures to evaluate information provided by the colleges in considering the appropriate financial reporting of transactions at the inception of new standards, agreements, and transactions, which increases the risk that the System Office will overlook or not appropriately consider these items when compiling the financial statements. Failure to present financial activity in accordance with GAAP may impact stakeholders’ ability to rely on the System’s financial statements to make informed decisions.

Fiscal Services should modify its financial statement preparation and review process to ensure it appropriately addresses the identification and analysis of new and complex financial activity in accordance with GAAP. Specifically, we recommend Fiscal Services dedicate the necessary resources to develop and implement policies and procedures for identifying agreements with external entities and other relevant transactions throughout the year and performing analysis to determine the appropriate financial reporting to comply with GAAP. Additionally, when evaluating agreements and transactions, Fiscal Services should maintain documentation of its significant judgements and application of the applicable GASB standard(s). Finally, Fiscal Services should revise its process for compiling amounts reported by the System’s foundations to review for consistency across these entities and to revise the System’s financial statements for audited foundation financial statements once available.

2023-02: Improve Policies and Procedures for Capital Assets

Type: Internal Control

Severity: Material Weakness

First Reported: Fiscal Year 2021

The System's policies and procedures related to capital assets do not address how the System will comply with certain financial reporting and Commonwealth Accounting Policies and Procedures (CAPP) Manual requirements. The policies and procedures for capital assets do not provide guidance for tracking construction in progress, recording correct acquisition dates, recording assets timely, capitalizing assets properly to include transfers of capital assets, recording of intangible assets, determining impairment of assets, and evaluating public-private and public-public partnerships and availability payment arrangements. The System Office Plant Funds Manager relies heavily on the individual colleges to report accurate information to track, record, capitalize, verify, and dispose of assets. In addition to insufficiently documented policies and procedures, the System Office Plant Funds Manager's process does not include an adequate review of capital asset information reported by the colleges for reasonableness. As a result of these weaknesses, we communicated 20 separate findings to the System Office, the Shared Service Center (Shared Services), and various colleges for capital asset related deficiencies we identified during the audit as summarized below:

- The System Office has not performed an adequate inventory of capital assets since fiscal year 2019 resulting in an understatement of over \$2 million in information technology assets in the accounting information system. In addition, the System Office did not retain documentation to support the acquisition date, disposal date, and timeliness of recording any equipment additions and disposals for the fiscal year.
- One college has not recorded capital assets within the accounting information system since fiscal year 2017 resulting in a recurring adjusting entry, beginning in 2021, totaling \$1.6 million for capital asset purchases from fiscal year 2017 to 2020. In addition, this college purchased approximately \$7.5 million in potential capital assets since fiscal year 2021 that it has not fully evaluated for proper recording. To date, these purchases resulted in the recordation of only \$264,027 in capital assets.
- Nine colleges are not properly evaluating potential capital asset vouchers for capitalization purposes and/or are not properly recording the acquisition date for new equipment capital assets.
- The System did not adequately plan and prepare for the implementation of GASB Statement No. 87 - Leases to ensure proper identification and reporting of leases. As a result, one college incorrectly entered lease elements for long-term leases in the Commonwealth's lease accounting system causing an approximately \$5 million understatement of right-to-use assets and lease liabilities in the System's financial statements. In addition, six other colleges did not properly review contract documents to identify the complete population of leases, consistently determine lease terms and asset grouping of leases across all contracts, report variable costs associated with leases to the System Office for separate disclosure within the

financial statements, and/or develop policies and procedures to ensure consistent application across contracts. As a result, some of these colleges incorrectly reported leases as short-term that should have been recorded as long-term.

- The System did not adequately plan and prepare for the implementation of GASB Statement No. 96 to ensure proper identification and reporting of subscription-based information technology agreements (SBITA). In addition, Fiscal Services did not implement a process to ensure colleges adequately reviewed and documented the details of vendor agreements for the applicability of GASB Statement No. 96 or considered the financial reporting impact of the standard prior to implementation. As a result, long-term SBITAs were misclassified as short-term, understating the beginning balance of SBITA assets and liabilities by approximately \$27 million in the System's financial statements. Lastly, four entities did not properly evaluate license components of the purchases to determine if they should report them as right-to-use intangible assets under GASB Statement No. 96, Subscription-Based Information Technology Arrangements.

In addition to the items communicated in separate recommendations to each applicable entity, we also determined:

- Northern Virginia did not properly identify and disclose to the System Office a public-private partnership related to a five-year contract for dining hall functions at its various campuses resulting in insufficient footnote disclosure in the System's financial statements.
- The System Office did not submit a Project Completion Report (CO-14) for one project until 20 months after the issuance of the project's certificate of occupancy.

CAPP Manual Topic 30105 states that state agencies and institutions must have policies and procedures in place to properly record, track, and safeguard capital assets. CAPP Manual Section 30000 Capital Asset, Lease, and Subscription-Based Information Technology Arrangements Accounting, includes requirements related to construction in progress, acquisition methods, additions, disposals, and physical inventory. Retirement of key personnel and demands on remaining personnel contributed to the System Office not dedicating sufficient resources to comprehensively update its capital asset policies and procedures. Without adequate policies and procedures that address all required areas, the financial statements may not reflect consistent treatment of capital assets across the System, which could result in misstatements or misclassifications of amounts affecting capital-asset related footnotes and financial statement line items as well as misappropriation and potential loss of capital assets. In addition, sufficiently detailed policies and procedures can aid in continuity of operations when experiencing transitions and restructuring due to staff turnover and retirement of personnel in key functions.

The System Office should update, implement, and follow the System's capital asset policies and procedures to ensure compliance with all relevant CAPP Manual topics and proper safeguarding and financial reporting of the System's capital assets. The System Office should communicate the updated policies and procedures to the colleges to ensure consistency in capital asset reporting. Additionally, the System Office, in its role as the preparer of the System's financial statements, should perform an analysis

of information received from the colleges to ensure that it is reasonable and supports proper financial reporting.

2023-03: Strengthen Controls over Capital Asset Monitoring and Reporting

Type: Internal Control

Severity: Significant Deficiency

The System Office does not have sufficient controls surrounding the monitoring and reporting of capital assets including conducting physical inventories and timely and accurately recording asset additions and disposals. The System Office has not performed a complete physical inventory of its capital assets since fiscal year 2019. The capital assets not inventoried have a total cost of approximately \$28.7 million and net book value of approximately \$9.2 million as of fiscal year end 2023. In addition, the System Office does not retain adequate support to demonstrate the timely recordation of capital asset additions and deletions in the accounting information system as follows:

- Fiscal Services did not record 62 information technology assets purchased between fiscal year 2020 and fiscal year 2023 and which cost over \$2 million in the accounting information system. However, the Information Technology (IT) Department included them in a separate inventory tracking application that was not part of the accounting information system.
- Fiscal Services and the IT Department were unable to locate 13 of 30 (43%) of the information technology assets we selected for review. These assets had an initial cost of \$208,086 and a net book value of \$9,612.
- The System Office did not retain documentation to support the acquisition date and timeliness of recording for all four (100%) equipment additions.
- The System Office did not retain documentation to support the disposal date and timeliness of recording for all 27 (100%) equipment disposals.

CAPP Manual Topic 30505 requires a physical inventory of capital assets at least once every two years to properly safeguard assets and maintain fiscal accountability. CAPP Manual Topic 30205 states that institutions should post assets within 30 days after receipt and acceptance of the asset. Further, each institution should implement internal control procedures to ensure the use of an acceptable method of acquisition, timely recordation, and proper accounting for assets. Lastly, institutions should post asset disposals in the fiscal year the disposal occurs. Further, the System's internal policies and procedures require completion of documentation in the Equipment Manifest and recordation in the accounting information system for all disposals. A proper and effective inventory should result in accurate accounting of equipment and provides evidence of the reliability of the system of control for acquiring, using, and disposing of equipment.

The primary cause for the deficiencies is a breakdown in communications between Fiscal Services and the IT Department. Fiscal Services relies heavily on the IT Department to inventory IT assets, which account for 90 percent of the System Office equipment assets. However, due to turnover and staffing

issues, as well as prioritizing the data center move, the IT Department did not relay the results of inventories to Fiscal Services. In addition, Fiscal Services accepted verbal communication as a means for adding and disposing information technology assets.

System Office management should ensure Fiscal Services and the IT Department coordinate to perform a complete inventory of capital assets. Fiscal Services should analyze all potential capital assets in the accounting information system and capitalize them where appropriate as well as reconcile the inventory to the accounting information system. In addition, Fiscal Services should retain documentation to support capital asset additions and deletions in the accounting information system. System Office management should allocate sufficient resources to perform inventories in compliance with the CAPP Manual and System requirements. Finally, the System Office should create policies and procedures over the inventory process, capital asset acquisition and recordation, capital asset disposals, and the reconciliation of inventory to the System's accounting information system.

2023-04: Improve Internal Controls over Prepaid Expense Calculations

Type: Internal Control

Severity: Significant Deficiency

The System Office does not have adequate policies and procedures for the preparation of the System's prepaid expense calculation. Our review found the System Office's policies and procedures do not adequately address the following:

- The annual review and update of the data and formulas within the prepaid expense calculation;
- The proper classification of prepaid expenses as current or noncurrent;
- The retention of adequate evidence supporting the preparation of the prepaid expense calculation including the preparer's sign-off and date; and
- The performance of an independent review of the prepaid expense calculation and retention of documentation of such review.

As a result of these deficiencies, the System Office did not detect inaccuracies within the calculations resulting in a \$9.5 million adjustment to reduce prepaid expense and a \$275,650 adjustment to increase noncurrent prepaid expense.

CAPP Manual Topic 20310 defines an advance payment as a payment that is made prior to the receipt of goods or services. In accordance with GAAP, accrual accounting requires expenses to be charged to the fiscal year and period in which goods are received or services are performed. A prepaid expense is an expense paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is recorded as an expense.

The Assistant Controller did not follow policies and procedures when preparing the prepaid expense calculation and, as a result, improperly updated data within the calculation. Not following the

policies and procedures and not performing a review of the prepaid expense calculation increases the risk of a misstatement occurring in the financial statements. Further, inaccurate financial information can affect long-term planning and the decisions of those individuals or institutions that rely on such information.

The System Office should update the policies and procedures over the prepaid expense calculation to include a process that ensures the preparer accurately performs and documents the calculation. These policies and procedures should include a review process for the prepaid expense calculation to ensure the preparer uses accurate formulas to properly report prepaid expenses within the financial statements including current and noncurrent classifications. Additionally, the System Office should retain documentation to identify the preparer and reviewer of the calculation and dates of performance.

2023-05: Review and Update Information Technology Security Policies and Procedures

Type: Internal Control and Compliance

Severity: Significant Deficiency

The System Office does not document its review of the System's IT Security Standard or related information security policies and procedures. Additionally, the System Office did not update the IT Security Standard and related policies and procedures to reflect the newest version of its adopted security standard, the International Organization for Standardization and International Electrotechnical Commission Standard, ISO/IEC 27002:2022 (ISO Standard). The current edition of the ISO Standard was released on February 15, 2022, and supersedes the previous 2013 edition.

The System's IT Security Standard requires the System Office to review the System's information security program, including the security policy and security standards, annually during the first quarter of the calendar year. The ISO Standard requires review of the information security policy and topic-specific policies at planned intervals and if significant changes occur.

Not performing and formally documenting its review and revisions to its IT Security Standard and related policies and procedures increases the risk that the System Office's requirements for internal controls will become outdated or obsolete. These risks could result in the System being unable to consistently govern its information security program and meet operational needs.

The System Office does not document its annual review of its IT Security Standard and related policies and procedures due to the lack of a formal process. Additionally, the System Office did not update its policies and procedures to reflect the newest ISO Standard requirements because it is changing its adopted security standard to the National Institute of Standards and Technology Standard, 800-53 (NIST Standard). The System Office formally submitted a request to transfer security standards to its Technology Council in November 2023 and the Technology Council approved the request in March 2024. As a result, the System Office plans to revise its IT Security Standard and supporting policies and procedures to reflect the NIST Standard by Fall 2024.

The System Office should dedicate the resources necessary to implement a formal process to document its annual review and revisions to its IT Security Standard and supporting policies and procedures. The System Office should also complete its project to update its IT Security Standard, policies, and procedures to reflect the current version of its adopted security standard, which will help ensure the adequacy of the System Office's information security program.

2023-06: Develop and Implement IT Asset Management Procedures

Type: Internal Control and Compliance

Severity: Significant Deficiency

The System Office has not designed and implemented procedures related to media handling and does not document an annual review of its security standards and policies. The System Office documents IT security guidelines to help support the System's IT Security Standard; however, the IT security guidelines do not outline the specific procedures the System Office's staff should follow or the use of its external contractor to sanitize and destroy electronic devices.

The System Office uses the ISO Standard to establish information security controls in its IT environment, as outlined in the System's IT Security Standard. The System's IT Security Standard requires the System Office to implement effective procedures to manage electronic and non-electronic removable media including the handling of assets. The System's IT security guidelines state that the System Office and colleges will design and implement procedures for the secure disposal of media to minimize the risk of sensitive, confidential, or proprietary information disclosure or exposure to unauthorized persons. The System's IT Security Standard also requires the System Office to annually review the information security program, including the security policy and security standards, during the first quarter of the calendar year.

The System Office misunderstood the requirements of its IT Security Standard, considering its IT security guidelines related to media handling to be its procedure, and therefore, did not document and implement specific procedures as required by the System's IT Security Standard. The System Office does not document its annual review of its IT Security Standard, and correspondingly its media handling policy, due to the lack of a formal process to document such reviews. Insufficient media handling and disposal procedures increase the risk of inconsistent tracking and disposal of IT assets. Additionally, not requiring and having a process to formally document its review and revisions to policies and procedures increases the risk that controls in place become outdated or obsolete. These risks could result in the disclosure of the System's sensitive and mission-critical data.

The System Office should dedicate the resources necessary to design, document, and implement procedures for media handling and disposal in accordance with the System's IT Security Standard. The System Office should also implement a process to formally document its review and revisions made to the System's IT Security Standard and supporting policies and procedures. Improving these processes and procedures will help maintain the confidentiality of the System's sensitive and mission-critical data and meet the requirements of the ISO Standard.

2023-07: Improve the Monitoring of Critical System Access**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

During fiscal year 2023, System Office IT personnel maintained unnecessary access to user roles in the System's accounting information system (accounting system). Six out of 19 (32%) users tested had access to 13 out of 235 (6%) role combinations that were conflicting based on the concept of segregation of duties and the lack of justification from management. The System's Role Reference Guide identifies access roles that are critical due to potential conflicts considering the concept of segregation of duties. The System's Security Standard states that "segregation of duties will be implemented, where appropriate, to reduce the risk of negligent or deliberate system misuse."

Inappropriate access to critical roles was primarily due to turnover and staffing issues in the System's IT department. Not properly monitoring critical system access may increase the risk of compromising data integrity and may also increase unnecessary exposure to sensitive data. Additionally, a lack of segregation of duties, increases the risk of the occurrence of negligent or deliberate system misuse, and that users can circumvent other compensating controls and perform unauthorized transactions.

Management should evaluate and review the procedures for granting, monitoring, and removing critical system access and assign roles and privileges that prevent segregation of duties concerns in alignment with the System's Role Reference Guide. Additionally, the System Office should document applicable follow-ups to access reviews to ensure that management implements necessary access changes.

2023-08: Continue to Develop Comprehensive Policies and Procedures for Reviewing and Reacting to System and Organization Controls Reports**Type:** Internal Control**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2019

While the System Office has worked to develop comprehensive policies and procedures over the review of third-party service providers' System and Organization Controls (SOC) reports, which include evaluating related complementary user entity controls (CUECs), neither the System Office nor the colleges using the services have implemented these procedures. SOC report reviews are a key internal control as the System Office, colleges, and Virginia Community College System Shared Services Center (Shared Services) contract with service organizations and these organizations' transactions and internal control environments have a direct impact on the System's financial operations. Although the System Office's process for SOC report reviews includes a variety of fillable forms between the System Office and the colleges and Shared Services, the System Office was not able to provide documentation indicating that it had followed its procedures to review the SOC reports. In addition, the System Office could not provide documentation describing the actions it took to ensure the proper implementation and design of CUECs.

In response to the previously issued finding, the Controller for the System Office developed a process for gathering SOC report information from the colleges. The implementation of the new procedures has been in process during the last year, but the System requires additional time to fully implement its SOC review process.

CAPP Manual Topic 10305 requires agencies to have adequate interaction with service providers to appropriately understand the provider's internal control environment. Agencies must also maintain oversight over providers to gain assurance over outsourced operations. SOC reports are a key tool in gaining an understanding of a provider's internal control environment and maintaining oversight of outsourced operations.

Without implementing its written comprehensive policies and procedures over SOC report reviews, the System may not sufficiently evaluate risks related to the use of third-party service providers. The System Office, the colleges, and Shared Services may not be able to ensure their CUECs are sufficient to support their reliance on the service providers' internal control design, implementation, and operating effectiveness. In addition, the System may face challenges in demonstrating that it is properly addressing any internal control deficiencies and/or exceptions noted in the SOC reports.

The System should implement its policies and procedures to conduct a sufficient review of SOC reports and indicate the degree of responsibility for reacting to the contents of the SOC reports, which may include designing and implementing of CUECs by System Office, the colleges, and Shared Services, as necessary. The System Office should ensure that management at all colleges and Shared Services understand the importance of reacting, through the design and implementation of CUECs, to support the reliance placed on the service entity's internal control environment in accordance with CAPP Manual guidance and industry best practices. If the System Office, the colleges, or Shared Services identify exceptions in the SOC reports, management should document its evaluation of the exception, including whether additional complementary controls are necessary to mitigate the risk to the System. Finally, the System should ensure that it maintains adequate documentation of the SOC report reviews.

2023-09: Continue to Improve Procedures for Employee Separation

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2020

The System Office did not notify the IT department to remove system access timely after users separated from the System Office. The System Office removed system access later than 24 hours for one of two (50%) employees who involuntarily terminated.

The System's Information Security Standard states the IT department should remove access rights of all employees within five business days or 24 hours for involuntary terminations. Failure to remove system access timely increases the risk of unauthorized transactions and potential exposure of sensitive data. The Human Resource (HR) Generalist was not available to submit the access termination request which resulted in untimely removal of system access. The System Office should designate a back-up individual to perform human resource functions when the HR Generalist is not available.

2023-10: Improve Database Security**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2022

The System Office continues not to document or implement some required or recommended controls that will improve the security posture of the database supporting its student information system. The System Office adopts the ISO Standard to establish information security controls in its IT environment. The ISO Standard requires that organizations document and implement certain controls to adequately protect sensitive data. The System's IT Security Standard includes a formal Exception Request Procedure that documents the requirements to request and obtain approval for deviations and exceptions to policies and procedures. Additionally, the System Office adopts the Center for Internet Security's industry best practices (CIS Benchmark), which assists organizations with implementing technology-specific controls to improve security posture.

The System Office remediated one of the five prior year weaknesses; however, there are four control weaknesses that do not meet the requirements of the ISO Standard, or, in some cases, the CIS Benchmark's recommended settings where the System Office does not have written justification for the exceptions. Additionally, the System Office updated its operating procedures and baseline based on the CIS Benchmark, but did not follow its formal exception process to document its evaluation, justification, and approval for deviating from expected security settings. We communicated the specific control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

Without following its formal exception process to document deviations from expected security settings, the System Office increases the risk of not reviewing, documenting, assessing, nor approving exceptions in a controlled manner. This could result in operational disruptions, compliance issues, and the compromise of the System Office's sensitive and mission-critical data. Additionally, not following its formal exception process to document justifications for deviating from required or recommended security controls and receiving the necessary approvals makes it difficult to determine whether management accepts and is aware of the associated risks. The System Office has an ongoing project to develop and implement a new process to strengthen one of the control areas identified in the finding.

The System Office should continue developing and implementing its new process that is currently in progress. Additionally, the System Office should implement the security controls and process noted in the separate document marked FOIAE to ensure the configuration aligns with the ISO Standard and CIS Benchmark. For controls the System Office cannot implement as required or recommended, the System Office should follow its formal exception process to document the deviations, justifications, compensating controls, and approval for the deviations. Improving the security posture of the database will help maintain the confidentiality, availability, and integrity of the System Office's sensitive and mission-critical data.

2023-11: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

The System Office did not properly evaluate and correct the prior-year deficiencies surrounding its implementation of GASB Statement No. 87 - Leases to ensure proper identification and reporting of leases. As a result, we found the following deficiencies remained during the fiscal year 2023 audit:

- Fiscal Services did not review contract documents or work with other departments within the System Office or colleges to identify the complete population of leases for the System.
- Fiscal Services did not consistently determine the lease term and asset grouping of the leases across all contracts within the System. As a result, in fiscal year 2022, the System inappropriately classified some long-term leases as short-term leases, which are not required to be reported in the financial statements or footnote disclosures. The reporting of these leases has not changed since their initial recording in the system.
- Fiscal Services did not collect or report variable costs associated with the System Office and the 23 colleges' leases to the System Office for separate disclosure within the financial statements.
- Fiscal Services did not develop GASB Statement No. 87 policies and procedures to ensure consistent application across contracts and the 25 System locations.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes the applicable accounting standards surrounding the proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the college incurs the obligation for those payments. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement.

Accurate and consistent accounting for new standards requires the coordination of the individual colleges and the System Office. Turnover in a position responsible for implementing corrective action delayed the System Office's remediation efforts. The System Office should work with the colleges to determine the proper accounting treatment and provide detailed guidance to the colleges as needed to ensure consistent reporting. Additionally, the System Office should perform a detailed review of the financial information prepared by the colleges before compiling the financial statements. The review should ensure proper application of accounting standards and consistent treatment of similar items among the colleges.

The System Office should ensure the individuals evaluating, tracking, recording, and reporting leases have appropriate resources to obtain a thorough understanding of the requirements of GASB Statement No. 87. Management should develop, implement, and regularly update policies and procedures surrounding the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the lease liability and ensure that the colleges report these costs to the System Office for inclusion in the financial statements. In addition, the System Office should perform an evaluation over all contracts to ensure it properly captures all leases, corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.

NORTHERN VIRGINIA COMMUNITY COLLEGE

2023-12: Improve Internal Controls over Prepaid Expenses

Type: Internal Control

Severity: Significant Deficiency

Northern Virginia does not have adequate policies and procedures for the calculation and recording of prepaid expenses. During fiscal year 2023, Northern Virginia prepaid four software subscriptions for periods lasting longer than a year without retaining documentation of beneficial pricing arrangements. Northern Virginia also paid for yearly membership dues six months prior to the expiration of the previous yearly membership.

CAPP Manual Topic 20130 defines an advance payment as a payment that an institution makes prior to receipt of goods or services. Advance payments for written contracts, leases, or agreements are subject to a maximum prepayment period of one year. However, there are exceptions for computer software licenses where the pricing arrangements make it cost beneficial. In addition, CAPP Manual guidance does not allow institutions to make annual membership prepayments more than 90 days prior to the expiration of the previous year's membership.

By not following CAPP Manual guidance on prepayments, Northern Virginia increases the risk of misappropriating assets and misstatement occurring in the financial statements. Prepayments inherently carry greater risk as the risk that vendors will not fulfill obligations increases as service periods lengthen. Northern Virginia misunderstood how to calculate a year into the future as they did not consider the timing of the payment versus the timing of the service. In addition, its policies and procedures for prepaid expenses do not emphasize the importance of only prepaying expenses up to a year into the future and not renewing memberships more than 90 days before expiration. These policies also do not emphasize the importance of retaining documentation of beneficial pricing arrangements for software licenses lasting longer than a year.

Northern Virginia should update its policies and procedures to emphasize the importance of the timing structures specified in CAPP Manual Topic 20130 to ensure that it does not unintentionally misuse state funds. These policies and procedures should also disallow prepayments for service periods extending beyond a year from the date of the payment, except for software licensing agreements with

beneficial pricing arrangements. Northern Virginia should also retain documentation of beneficial pricing arrangements for its prepaid software licensing agreements.

2023-13: Continue to Strengthen Interdepartmental Communications Related to Terminated Employees

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2019

Northern Virginia did not perform proper termination procedures as follows:

- Northern Virginia did not maintain documentation of timely removal of information system access for six of 40 (15%) terminated employees.
- Northern Virginia did not maintain documentation of employee termination date or entered the incorrect termination date for four of 40 (10%) terminated employees.
- Northern Virginia did not complete an employment separation checkout form ensuring return of property for 13 of 31 (42%) terminated employees.
- Northern Virginia did not remove access or transfer access to a custodial account within five days of the account owner's termination date for three out of 30 (10%) terminated employee accounts with access to the Commonwealth's purchasing system.

The System's IT Security Standard states the IT department should remove access rights within five business days or 24 hours for involuntary terminations. Removal of access includes physical and logical access, keys, identification cards, information systems and data, subscriptions, and removal from any documentation that identifies them as a current employee of Northern Virginia.

Timely communication between supervisors and human resources is a challenge when an employee terminates without notification resulting in untimely access removal and lack of property collection. Not removing system access timely increases the risk that terminated employees could retain unauthorized access to college and state systems and sensitive information. It also exposes the college to inappropriate activity by individuals no longer employed by the entity.

Northern Virginia should strengthen communication among supervisors, human resources, and the IT department to effectively reduce instances in which the length of time between employee termination and removal of system access exceeds the allocated timeframe in its policies and procedures. Northern Virginia should also provide additional training to employees in managerial positions to improve the timeliness of communication for system access removal.

2023-14: Improve the Monitoring of Critical System Access

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2021

Northern Virginia does not have adequate policies and procedures surrounding granting and maintaining access with respect to appropriate segregation of duties. As a result, during fiscal year 2023, Northern Virginia personnel maintained unnecessary access to user roles in the System's student information system. We noted the following deficiencies related to the monitoring and maintenance of critical system access at Northern Virginia based on the concept of segregation of duties:

- Four out of 32 (13%) users tested had access to eight out of 90 (9%) role combinations that conflict based on the concept of segregation of duties. We previously identified three of the four users (75%) in the fiscal year 2022 audit.

We performed testing in accordance with the System's Role Reference Guide, which identifies access roles that are critical due to potential conflicts considering the concept of segregation of duties. The System's IT Security Standard states that "segregation of duties will be implemented, where appropriate, to reduce the risk of negligent or deliberate system misuse."

Northern Virginia issued the system access based on System Office created "Copy IDs" which the college cannot alter and included conflicting roles that are not in alignment with the concept of least privilege. Northern Virginia was unaware that it could request specific "Copy IDs" from the System Office. Requesting specific "Copy IDs" will allow Northern Virginia to resolve existing access role conflicts and prevent future segregation of duties issues while still allowing users to have the access needed to perform their job functions. By not properly monitoring critical system access, Northern Virginia may increase the risk of compromising data integrity and may also increase unnecessary exposure to sensitive data. In the case where there is a lack of appropriate segregation of duties, there is an increased risk of the occurrence of negligent or deliberate system misuse, and that users can circumvent other compensating controls and perform unauthorized transactions.

Northern Virginia should determine the access roles needed for each of the "Copy IDs" it uses for student information system access and request that System Office develop new "Copy IDs" specific to Northern Virginia. Additionally, management should evaluate and review the procedures for granting, monitoring, and removing critical system access and assign roles and privileges to prevent segregation of duties concerns. Management should ensure these policies and procedures include the process of assigning the appropriate Northern Virginia-specific "Copy IDs" to prevent future access role conflicts.

2023-15: Comply with Employment Eligibility Requirements**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2022

Northern Virginia does not have sufficient processes and controls over the employment eligibility verification process. Northern Virginia did not complete Employment Eligibility Verification forms (Form I-9) in accordance with guidelines issued by the U.S. Citizenship and Immigration Services of the Department of Homeland Security. We noted the following deficiencies:

- Northern Virginia did not complete all required fields of Section 1 of Form I-9 for three of 22 (14%) new hires;
- Northern Virginia did not complete Section 1 of Form I-9 until five business days after the employee's first day of employment for one of 22 (5%) new hires; and,
- Northern Virginia did not retain a photo matching document with Form I-9 for two of 22 (9%) new hires.

The Immigration Reform and Control Act of 1986 requires that all employees hired after November 6, 1986, complete Form I-9 to verify both employment eligibility and identity. The U.S. Department of Homeland Security's Instructions for Form I-9 Employment Eligibility Verification states that the employee must sign their Form I-9 on the first day of employment or before, if they accept the job offer. The employer is responsible for reviewing Section 1 and requiring the employee to update any incorrect or missing information with the employee's initials and date of correction beside the update. Additionally, the employer is responsible for completing Section 2 to include examination of evidence pertaining to employment authorization and identity within three business days of the employee's first day of employment.

Not complying with federal regulations related to employment verification could result in civil and/or criminal penalties and disbarment from government contracts. Northern Virginia did not implement sufficient controls and procedures to guarantee proper completion of Form I-9. Northern Virginia should evaluate and update current procedures for completion and retention of Form I-9 and implement corrective action to prevent future noncompliance.

2023-16: Properly Record Asset Acquisition Dates**Type:** Internal Control**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2022

Northern Virginia does not process equipment purchases timely resulting in staff entering capital assets into the accounting information system late and with incorrect acquisition dates. We observed the following exceptions during our review:

- For six out of nine (67%) equipment assets tested, staff recorded an incorrect acquisition date in the accounting information system. The recorded acquisition dates for the assets tested are between 120 and 602 days after the physical receipt of the asset. As a result, Northern Virginia understated its equipment beginning balance within the System's capital asset footnote and overstated fiscal year 2023 equipment additions by approximately \$42,000.
- For two out of three (67%) potential capital asset vouchers tested, staff recorded an incorrect acquisition date for four out of five (80%) equipment assets in the accounting information system. The recorded acquisition dates for the assets tested are between 89 and 108 days after the physical receipt of the asset. Staff recorded three of these equipment assets in fiscal year 2024 resulting in a \$36,000 understatement of the fiscal year 2023 equipment additions reported within the capital asset footnote.

CAPP Manual Topic 30205 states that institutions should record assets as soon as possible after title passes. It further states that title passes at the date the institution receives the equipment. Additionally, CAPP Manual Topic 30610 requires the accurate recordation of acquisition date to ensure the accurate calculation of depreciation. By not properly recording equipment assets, Northern Virginia increases the risk of inaccurate reporting of capital assets in the financial statements. Financial statement preparers calculate depreciation using asset acquisition cost, useful life, and acquisition date. An incorrect acquisition date can impact the depreciation calculation and increase the risk of recording an asset in the wrong fiscal year.

Northern Virginia is using the date it completes its asset tagging process as the acquisition date. Northern Virginia does not always process equipment on time due to errors made during tag processing or high volumes of requests. In addition, personnel involved in the purchasing process are not always aware of the requirements of the capitalization process.

Northern Virginia should ensure adequate resources are available to process equipment purchases timely and communicate to responsible staff the importance of entering capital assets into the accounting information system with the correct acquisition date. Northern Virginia should ensure that departments notify the Warehouse Manager or Storekeeper upon the delivery of equipment to allow for timely recording in the accounting information system. In addition, Northern Virginia should ensure that all personnel involved in the process are familiar with procedures and requirements related to the proper recordation of assets.

2023-17: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

Northern Virginia continues to lack adequate policies and procedures to ensure proper identification and reporting of leases in accordance with GASB Statement No. 87 - Leases. GASB delayed GASB Statement No. 87 implementation by one year, which provided additional time to prepare for this

new accounting standard over leased assets. However, at the time of our review, Northern Virginia's policies and procedures remained deficient in the following areas:

- The Business Office did not review contract documents or work with other departments within Northern Virginia to identify the complete population of leases. As a result, it did not perform an evaluation of leased copiers or postage meters or related-party leases with the college's Foundations to determine if they met the GASB Statement No. 87 lease reporting requirements.
- The Business Office did not consistently determine the lease term across all contracts and, as a result, inappropriately classified a short-term lease as long-term.
- The Business Office did not report variable costs associated with Northern Virginia's leases to the System Office for separate disclosure within the financial statements. Instead, Northern Virginia included variable costs such as tenant improvements and space planning allowances in the lease payment streams it entered in the lease accounting system.
- The Business Office inappropriately included non-lease items such as operating expenses in the lease payment streams it entered in the lease accounting system for all leases.
- The Business Office did not develop GASB Statement No. 87 policies and procedures to ensure consistent application across contracts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the obligation for those payments is incurred. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement. Northern Virginia did not have an accurate understanding of GASB Statement No. 87 to be able to properly plan, prepare, and implement GASB Statement No. 87. In addition, Northern Virginia had turnover in key positions including the Controller and Assistant Controller.

Northern Virginia should ensure the individuals evaluating, tracking, recording, and reporting leases obtain appropriate resources to ensure they have a thorough understanding of the requirements of GASB Statement No. 87. Management should develop, implement, and update policies and procedures regularly over the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the lease liability to ensure that they are reported to System Office for inclusion in the financial statements. In addition, management should perform an evaluation over Northern Virginia's contracts to ensure the college properly captures all leases, corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.

TIDEWATER COMMUNITY COLLEGE

2023-18: Strengthen Communication and Procedures Related to Terminated Employees

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2018

Prior Title: Strengthen Interdepartmental Communications Related to Terminated Employees

The Tidewater Human Resources Department (Human Resources) does not have adequate internal controls over its terminated employee offboarding process. As a result, we identified the following deficiencies:

- Human Resources did not record employee terminations timely in the Commonwealth's human resource and payroll management system for 18 of 40 (45%) terminated employees, ranging from seven to 312 business days.
- Two of 15 (13%) employee accounts within the Commonwealth's purchasing system did not have access removed within five days of the account owner's termination date.
- Three of 12 (25%) employees did not return Commonwealth property timely, ranging from three to 28 days late.
- Building access was not removed timely for 16 of 40 (40%) terminated employees, ranging from seven to 101 business days.

The System's IT Security Standard states that access rights of all employees should be removed within five business days or 24 hours for involuntary terminations. In addition, Tidewater's internal employee separation procedures state that supervisors are to complete an online notice of separation form as soon as they are aware of a termination or pending termination and submit a completed employee separation checklist within five business days after the separation date or the last working day in the position, whichever comes first.

Untimely recording of termination increases the risk of Tidewater paying employees for work that they did not perform, misappropriation of Commonwealth assets, and unauthorized access to Tidewater's information systems and facilities. The untimely removal of system access was primarily the result of supervisors not submitting online notice of separation forms to Human Resources within the required timeframe. Human Resources has taken some remedial actions by distributing memorandums and offering training sessions to supervisors. Tidewater should continue to strengthen interdepartmental communications among supervisors, Human Resources, and the IT department to ensure responsible individuals submit notice of separation forms and complete employee separation checklists in a timely manner. Tidewater should also deactivate terminated employee access to the Commonwealth's purchasing system and the college's buildings in accordance with its policies and procedures.

2023-19: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

Tidewater continues to lack adequate policies and procedures to ensure proper identification and reporting of leases in accordance with GASB Statement No. 87 - Leases. GASB delayed the implementation of the standard by one year, providing preparers of financial statements additional time to prepare. Although Tidewater staff have taken additional training to improve their understanding of GASB Statement No. 87, as of the end of fiscal year 2024, Tidewater has not implemented corrective actions related to the following items communicated during the prior year's audit:

- The Business Office did not include all leases, short-term and long-term, in the Commonwealth's lease accounting system. In addition, it did not maintain supporting documentation of the evaluation for short-term leases resulting in the inability to evaluate the completeness of the lease population.
- The Business Office did not review the Commonwealth's lease accounting system to ensure that the uploaded lease data met its expectations. As a result, leases appeared as short-term leases in the system; however, the Business Office expected these to be long-term.
- The Business Office did not consistently determine asset grouping of the leases across all contracts. As a result, the lease accounting system classified these leases as short-term instead of long-term.
- The Business Office did not report variable costs associated with Tidewater's leases to the System Office for disclosure within the financial statements.
- The Business Office did not develop GASB Statement No. 87 policies and procedures to ensure consistent application across contracts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the college incurs the obligation for those payments. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement. In addition, the CAPP Manual and the System Office require the college to enter all leases including short-term leases into the Commonwealth's lease accounting system.

While Tidewater staff have attended training related to properly implementing GASB Statement No. 87, the college has not yet dedicated the resources to make corrections in the lease accounting system to address issues noted in the prior year. Tidewater should ensure the individuals evaluating,

tracking, recording, and reporting leases have appropriate resources to obtain a thorough understanding of the requirements of GASB Statement No. 87. Management should develop, implement, and regularly update policies and procedures surrounding the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the calculation of the lease liability and ensure that the college reports these costs to the System Office for inclusion in the financial statements. In addition, Tidewater should perform an evaluation of its contracts to ensure the college properly captures all leases (including short-term leases), corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.

BRIGHTPOINT COMMUNITY COLLEGE

2023-20: Comply with the 1,508 Hour Rule for Wage Employees

Type: Internal Control and Compliance

Severity: Significant Deficiency

Brightpoint did not have adequate staff to fulfill staffing requirements for campus security, payroll offices, and testing centers during the Commonwealth's standard measurement period of May 1, 2022 through April 30, 2023, resulting in wage employees exceeding the 1,508 work hour limitation to maintain campus functions. Four Brightpoint wage employees worked between 1,520 and 1,586 hours from May 1, 2022 through April 30, 2023.

Chapter 2 § 4-7.00 g. of the 2022 Virginia Acts of Assembly (Appropriation Act) states that "All state employees, including those in the legislative, judicial, and executive branches and the independent agencies of the Commonwealth, who are not eligible for benefits under a health care plan established and administered by the Department of Human Resource Management (DHRM) pursuant to Va. Code § 2.2-2818, or by an agency administering its own health care plan, may not work more than 29 hours per week on average over a 12-month period." DHRM guidance for determining compliance with this requirement defines the Commonwealth's standard measurement period as May 1 through April 30 of the following year. Working 29 hours per week over a 12-month period equates to 1,508 hours. Failure to comply with the Appropriation Act subjects Brightpoint to potential financial penalties for violation of the Federal Affordable Health Care Act by allowing workers to work over the threshold and not receive healthcare benefits.

Management should comply with the Appropriation Act and ensure wage employees do not exceed 1,508 hours worked during the Commonwealth's standard measurement period. To ensure compliance with this requirement, Brightpoint should strive to increase staffing levels to reduce the need for individual wage employees working more than 29 hours per week over a 12-month period.

2023-21: Improve Internal Controls Over Employee Termination Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Brightpoint's Human Resources Department (Human Resources) does not have adequate internal controls over the terminated employee offboarding process. Our audit identified the following deficiencies:

- Human Resources was unable to provide an offboarding checklist for 18 of 23 (78%) employees. For two of 23 (9%) terminated employees, Human Resources did not provide a checklist confirming receipt of Commonwealth property and removed access for one employee 143 days after termination.
- Human Resources did not document the correct termination date within the Commonwealth's human resource and payroll management system for 12 of 23 (52%) terminated employees. Additionally, Human Resources could not provide supporting documents for five employees to support the accuracy of termination dates in the system. The remaining seven employees had differences of four to 70 months between their actual termination dates and the dates recorded within the Commonwealth's human resource and payroll management system.
- Human Resources did not record employee terminations within the Commonwealth's human resource and payroll management system timely for 19 of 23 (83%) terminated employees. Human Resources could not provide supporting documents for five employee terminations, and for the remaining 14, Human Resources entered terminations into the Commonwealth's human resource and payroll management system between 23 and 1,904 days after termination.
- Human Resources did not provide adequate documentation for six out of 23 (26%) terminated employees to ensure they did not appear on subsequent payrolls after their termination.

Brightpoint's internal policy for removing employees from the Commonwealth's human resource and payroll management system does not require checklists or documents to ensure terminated employees return Commonwealth property nor ensure the timely removal of system access. However, the System's IT Security Standard states that colleges must remove access immediately for an employee involuntarily terminated, for individuals with permissions for systems with sensitive and/or confidential information. Additionally, Brightpoint's internal policies state that colleges will terminate full-time employees in the Commonwealth's human resource and payroll management system upon receipt of an employee's written resignation or intention to retire or notification of an employee's involuntary separation from his or her supervisor. The policy requires Human Resources to change the employee's status to "terminated" after the final payroll check and/or check for any leave balances. For part-time employees, the policy requires Human Resources to enter terminations in the Commonwealth's human resource and payroll management system upon receipt of a written resignation, notification of

involuntary separation, notification from the supervisor that the employee is no longer working, or when wage employees have not submitted a timesheet for two consecutive pay periods. Further, for work-study and student workers, the policy requires Human Resources to enter terminations in the Commonwealth's human resource and payroll management system when a wage employee has not submitted a timesheet for two consecutive pay periods; when the work-study employee's financial award has been exhausted, or at the end of the semester in which the employee worked unless the financial aid officer provides written justification for continuance; or after the last payroll coinciding with the end of the student worker's contract term. Lastly, the policy requires Human Resources to enter terminations for adjunct employees by the eighth week of the succeeding fall or spring semester if Human Resources have not received continuing employment documents.

Not obtaining Commonwealth assets or ensuring the timely removal of terminated employee access to sensitive systems increases the risk of misappropriation of Commonwealth assets and of non-employees having access to Brightpoint's information systems and facilities. Not accurately or timely recording employee terminations within the Commonwealth's human resource and payroll management system increases the risk that Brightpoint will pay employees for work they did not perform. Brightpoint should review its current termination practices and policies to ensure the policies are reasonable, consistent across all employee types, support an effective internal control framework, and require the retention of supporting documentation. In addition, Human Resources should take the necessary steps to complete offboarding checklists timely for all employee types.

2023-22: Perform Capital Asset Inventory, Record Capital Assets Timely, and Reconcile Inventory Counts

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2019

Brightpoint has not recorded certain capital assets, including donated capital assets, in the System's accounting information system since fiscal year 2017 resulting in a recurring adjusting entry, beginning in 2021, totaling \$1.6 million for capital asset purchases from fiscal year 2017 to 2020. Brightpoint recorded over \$7.5 million of equipment expenses since that time which the college should have evaluated for potential capitalization. In addition, Brightpoint did not properly perform a review of capital assets received as donations or a biennial physical inventory count of capital assets.

The System's Capital Assets Policies and Procedures Manual requires colleges to record the purchase of assets that meet capitalization criteria when the college acquires title and places the item in service. For equipment purchases, colleges should assume title passes at the date the college receives the equipment. Colleges should record all equipment purchased and paid for by June 30th by the established census date. Colleges should record the fair market value of donated assets that meet capitalization criteria at the date of receipt. In addition, CAPP Manual Topic 30505, states that institutions should perform a physical inventory of capital assets at least once every two years to properly safeguard assets and maintain fiscal accountability and reconcile the capital asset system to the accounting system to ensure completeness. Insufficient inventory of Brightpoint's physical assets increases the risk of misappropriation of college property and may contribute to the inclusion of

inaccurate information in the accounting information system and financial statements. A proper and effective inventory should result in an accurate accounting of equipment and provides evidence of the reliability of the system of control for acquiring, using, and disposing of equipment.

The primary cause for the deficiencies was a lack of policies and procedures as well as turnover in facilities staff who were previously responsible for performing these duties. Subsequently, Business Office staff did not reconcile the accounting information system to the inventory listings because facilities staff did not properly maintain these listings. Brightpoint should perform a complete inventory of capital and controllable assets, including any donated assets; reconcile the inventory to the accounting information system; analyze all expenses related to potential capital assets in the accounting information system and ensure proper capitalization; and convey this information to the System Office. Additionally, Brightpoint management should allocate sufficient resources to perform inventories in compliance with the CAPP Manual and System requirements. Brightpoint should also create policies and procedures over the inventory process, capital asset recordation, and the reconciliation of inventory to the System's accounting information system.

2023-23: Perform Annual Access Review of the Commonwealth's Retirement Benefits System

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

Brightpoint does not have adequate controls in place to ensure that system access to the Commonwealth's retirement benefits system (retirement benefits system) is appropriate. During the prior fiscal year Brightpoint did not perform a review of system access over the retirement benefits system, which resulted in eight users at Shared Services retaining unnecessary access to the retirement benefits system due to a business partnership agreement. Brightpoint established the original business partnership agreement with Shared Services through the retirement benefit system to enable Shared Services employees to view the retirement benefits system information for hiring purposes; however, this level of access is no longer necessary. Further, during fiscal year 2023, Brightpoint did not implement processes to perform a review of system access over the retirement benefits system.

The System's IT Security Standard states that the System must allocate privileges to users on a need-to-use basis and on an event-by-event basis, i.e., the minimum requirement for their functional role only when needed and the college should use the principle of least privilege in the assignment of security roles and responsibilities. Further, the System's IT Security Standard requires that the college review users' access rights at regular intervals; at least annually and when there are changes to employment. Additionally, according to the Virginia Retirement System (Retirement System) Employer Manual General Information, the Retirement System requires each employer's Primary Security Administrator and Primary Administrative Authority to perform periodic reviews of their contacts in the retirement benefits system and to certify the accuracy of their review. Allowing excessive access to critical systems and delays in deleting access increases the risk of compromising data integrity and unnecessary exposure to sensitive data. Brightpoint should implement a process to ensure it removes unneeded access to the retirement benefits system in a timely manner and performs regular reviews of access over the system.

2023-24: Comply with Employment Eligibility Requirements**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2022

Brightpoint does not have sufficient processes and controls over the employment eligibility verification process. Brightpoint did not complete Employment Eligibility Verification forms (Form I-9) in accordance with guidelines issued by U.S. Citizenship and Immigration Services of the Department of Homeland Security. We identified the following deficiencies:

- Brightpoint did not complete Section 1 of Form I-9 by the employee's first day of employment for one out of seven (14%) new hires; and
- E-Verify reports were not prepared within three business days of the employee's start date for two out of seven (29%) new hires.

The Immigration Reform and Control Act of 1986 requires that all employees hired after November 6, 1986, have Form I-9 completed to verify both employment eligibility and identity. The U.S. Department of Homeland Security's Instructions for Form I-9 Employment Eligibility Verification states that the employee must sign their Form I-9 on the first day of employment or before, if they accept the job offer. Additionally, the U.S. Department of Homeland Security's E-Verify User Manual states that employers who participate in E-Verify must create a case for each newly hired employee no later than the third business day after he or she starts work for pay.

Not complying with federal regulations related to employment verification could result in civil and/or criminal penalties and debarment from government contracts. Management did not complete the employees' employment eligibility verification timely due to insufficient controls surrounding the completion of Form I-9 and a new onboarding system. Brightpoint should evaluate current procedures for completing Form I-9, taking into consideration its new onboarding system, and implement corrective action to prevent future noncompliance.

2023-25: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87**Type:** Internal Control**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2022

Brightpoint continues to lack adequate policies and procedures to ensure proper identification and reporting of leases in accordance with GASB Statement No. 87 - Leases. GASB delayed the implementation of the accounting standard by one year, providing preparers of financial statements additional time to prepare. However, as of the end of fiscal year 2024, Brightpoint has not implemented corrective action related to the following items communicated during the prior year's audit:

- The business office did not review contract documents or work with other departments within Brightpoint to identify the complete population of leases. As a result, the business office did not perform an evaluation of postage machine leases to determine if they met the GASB Statement No. 87 lease reporting requirements.
- The business office did not consistently determine the lease term and asset grouping of the leases across all contracts. As a result, the business office inappropriately classified long-term leases as short-term leases.
- The business office did not report variable costs associated with Brightpoint's leases to the System Office for separate disclosure within the financial statements.
- The business office did not develop GASB Statement No. 87 policies and procedures to ensure consistent application across contracts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the college incurs the obligation for those payments. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement. At implementation, Brightpoint did not have an accurate understanding of GASB Statement No. 87 to be able to properly plan, prepare, and implement the statements. In addition, Brightpoint has had vacancies in key positions including the Director of Financial Services and Accounting Manager, which has delayed implementation of its corrective action.

Brightpoint should ensure the individuals evaluating, tracking, recording, and reporting leases obtain appropriate resources to ensure they have a thorough understanding of the requirements of GASB Statement No. 87. Management should develop, implement, and update policies and procedures regularly over the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the calculation of the lease liability and ensure that the college reports these costs to the System Office for inclusion in the financial statements. In addition, the business office should perform an evaluation of Brightpoint's contracts to ensure the college properly captures all leases, corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.

VIRGINIA PENINSULA COMMUNITY COLLEGE

2023-26: Improve Financial Reporting of Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Virginia Peninsula did not properly record certain capital assets in the System's accounting information system during the fiscal year. During our review, we identified the following deficiencies:

- Virginia Peninsula entered an incorrect acquisition date for one of two (50%) sampled equipment assets added to the accounting information system. The date the college entered for this asset was 282 days after the actual acquisition date. Additionally, Virginia Peninsula did not enter the asset timely, as the college added the asset to the accounting information system 282 days after the date of receipt and acceptance.
- In a selection of equipment vouchers, Virginia Peninsula entered an incorrect acquisition date for one of three (33%) sampled equipment vouchers. The college entered an acquisition date of 307 days after the actual acquisition date and did not enter the acquisition date timely. Lastly, the acquisition value recorded for the asset did not agree with the supporting information the college provided.

The System's Capital Assets Policies and Procedures Manual requires purchased assets to be recorded when the college acquires title and places the items into service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. The college should ensure recording of all equipment purchased and paid for by June 30 by the established census date. CAPP Manual Topic 30205 states that assets should be posted within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly.

The primary cause of the deficiencies is turnover in key positions and staff not understanding that the acquisition date in the accounting information system defaults to the date of entry requiring the staff to manually enter the actual acquisition date. Improper recording of capital assets increases the risk of misstating asset balances and their corresponding depreciation, which can affect the System's financial statements. Virginia Peninsula should analyze and capitalize accurately and timely all potential capital assets in the accounting information system. Virginia Peninsula should also retain all supporting documentation for acquisition costs added to the accounting information system.

VIRGINIA WESTERN COMMUNITY COLLEGE

2023-27: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

Virginia Western did not adequately plan and prepare for the implementation of GASB Statement No. 87 – Leases to ensure proper identification and reporting of leases. As a result, Virginia Western did not adequately record lease elements for long-term leases in the Commonwealth’s lease accounting system during fiscal year 2023 causing an understatement of right-to-use assets and lease liabilities of approximately \$5 million.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth’s lease accounting system should review the specific requirements of the statement.

Despite taking the mandatory training, Virginia Western did not have an accurate understanding of how to properly enter lease elements into the Commonwealth’s lease accounting system. Virginia Western should ensure the individuals evaluating, tracking, recording, and reporting leases obtain appropriate resources to ensure they have a thorough understanding of the requirements of GASB Statement No. 87 and how to enter lease elements into the Commonwealth’s lease accounting system. Management should develop, implement, and update policies and procedures regularly over the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include how to enter lease elements into the Commonwealth’s lease accounting system.

2023-28: Improve Financial Reporting of Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Virginia Western did not properly record certain capital assets in the System’s accounting information system during the fiscal year. During our review we identified the following deficiencies:

- Virginia Western entered an incorrect acquisition date for two of three (67%) sampled equipment assets added to the accounting information system. The date the college recorded for these assets was 213 days after the actual acquisition date. In addition, the actual acquisition date for these assets was in fiscal year 2022; however, the college added these assets to the accounting information system in fiscal year 2023, 263 days after the date of receipt and acceptance of the asset.

- For a selection of equipment vouchers, Virginia Western entered one of two (50%) equipment assets with the incorrect acquisition date. The date the college recorded for the asset was 37 days after the actual acquisition date.

The System's Capital Assets Policies and Procedures Manual requires purchased assets to be recorded when the college acquires title and places the items into service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. The college should ensure recording of all equipment purchased and paid for by June 30 by the established census date. CAPP Manual Topic 30205 states that assets should be posted within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly.

The primary cause for the deficiencies is insufficient review of system entries and management oversight resulting in inaccurate recording within the accounting information system. Improper recording of capital assets increases the risk of misstating asset balances and their corresponding depreciation, which can affect the System's financial statements. Virginia Western should adhere to the System's Capital Assets Policies and Procedures Manual by using the date that the asset was received and accepted as the acquisition date it enters in the accounting information system and should strengthen its review process when entering assets into the system.

J. SARGEANT REYNOLDS COMMUNITY COLLEGE

2023-29: Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets

Type: Internal Control

Severity: Significant Deficiency

Reynolds did not properly record certain capital assets in the System's accounting information system during the fiscal year. In addition, Reynolds did not properly evaluate license components of the purchases to determine if they should be reported as right-to-use intangible assets under GASB Statement No. 96, Subscription-Based Information Technology Arrangements. During our review we identified the following deficiencies:

- Reynolds entered the incorrect cost for two of four (50%) sampled equipment assets added to the accounting information system resulting in an understatement of capital assets of approximately \$52,000.
- Reynolds used the incorrect acquisition date for three of four (75%) sampled equipment assets added to the accounting information system resulting in incorrect depreciation calculations. The recorded date for these assets was 80 to 248 days after the actual acquisition date.

- Reynolds did not add all four (100%) sampled equipment assets to the accounting information system timely, as the college entered the assets between 80 and 307 days after the date of receipt.
- Reynolds did not identify and capitalize equipment in three of four (75%) sampled equipment vouchers. For one voucher, the college capitalized the assets in fiscal year 2025 even though it received the asset and placed it into service in fiscal year 2023. Another voucher contained multiple components that the college should have capitalized rather than expensed. Lastly, one voucher contained potential technology licensing agreements that the college did not evaluate for proper treatment under GASB Statement No. 96. As a result, the System's financial statements understated capital asset additions by approximately \$228,800 and the associated depreciation expense by five months for one asset and one year for the other. Additionally, the financial statements understated right-to-use intangible assets, along with related amortization by approximately \$57,800, understated the associated SBITA liability, and overstated current fiscal year operating expenses.

The System's Capital Assets Policies and Procedures Manual requires purchased assets to be recorded when the college acquires title and places the item in service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. Colleges should ensure recording of all equipment purchased and paid for by June 30 by the established census date. In addition, colleges should capitalize component parts as a unit, when exceeding applicable capitalization thresholds. A component part is that part of a unit of equipment that an entity cannot use independently or physically connects to the major asset. This definition applies even though an individual component part may not meet the capitalization criteria by itself. CAPP Manual Topic 30205 states that assets should be posted within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly. Further, GASB Statement No. 96 prescribes that contracts may contain multiple components, and preparers of governmental financial statements should evaluate those components separately as subscription and non-subscription components. The primary cause for inaccurately recording the capital assets is insufficient management oversight in the recording of capital asset purchases and a misunderstanding of how the components of the potential capital asset purchase functioned. Vacancies in positions and demands on staff resources contributed to delays in recording assets timely.

Reynolds should gain a thorough understanding of how the components of the capital asset purchase function to ensure the college capitalizes multiple component purchases as a unit, when applicable, and when the combined assets exceed the System's capitalization thresholds. Lastly, Reynolds should evaluate the individual components of any purchases containing subscription-based information technology and recognize those components in accordance with GASB Statement No. 96.

BLUE RIDGE COMMUNITY COLLEGE

2023-30: Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act

Type: Internal Control and Compliance

Severity: Significant Deficiency

Blue Ridge does not comply with certain elements of the Gramm-Leach Bliley Act (GLBA) related to its information security program. Public Law 106-102, known as GLBA, considers institutions of higher education to be financial institutions because of their engagement in financial assistance programs. Related regulations at Title 16 Code of Federal Regulations (CFR) §§ 314.3 and 314.4 require organizations to develop, implement, and maintain the information security program to safeguard customer information. Specifically, the college does not comply with the following GLBA requirements:

- While Blue Ridge's written information security program states the college will ensure third parties implement, operate, and maintain security controls defined in agreements, Blue Ridge does not have procedures for how it will oversee its third-party service providers. GLBA requires organizations to oversee service providers by periodically assessing service providers based on the risk they present and the continued adequacy of their safeguards. Additionally, GLBA requires organizations to document procedures for evaluating, assessing, or testing the security of externally developed applications utilized for transmitting, accessing, or storing customer information. Not formally developing procedures to periodically assess its service providers could result in unaddressed vulnerabilities, which may result in the compromise of the college's sensitive information and data.
- Blue Ridge documents a standard operating procedure requiring the encryption of data; however, the procedure requires the Transport Layer Security (TLS) 1.1 encryption algorithm. The Internet Engineering Task Force formally deprecated TLS 1.1 in March 2021 because the version lacks support for current and recommended cryptographic algorithms and mechanisms. Blue Ridge updated its procedure to require TLS 1.2 on June 4, 2024, which is outside of the fiscal year 2023 audit period. GLBA requires that colleges protect by encryption all customer information held or transmitted by the college both in transit over external networks and at rest. Implementing a deprecated encryption algorithm such as TLS 1.1 increases the scope of an attack and increases opportunity for misconfiguration, which could compromise confidential data (16 CFR § 314.4(c)(3)).
- Blue Ridge did not formally document a procedure to regularly conduct vulnerability scanning and monitor the results. The college developed a procedure on June 5, 2024, which is outside of the fiscal year 2023 audit period. GLBA requires that organizations design and implement safeguards to control risks identified through risk assessment, and that organizations regularly test or otherwise monitor the effectiveness of the safeguards' key controls, systems, and procedures, including those to detect actual and attempted attacks on, or intrusions into, information systems. The lack of a formal procedure could result in the college not

implementing appropriate safeguards to mitigate threats and vulnerabilities (16 CFR § 314.4(d)).

Blue Ridge did not include all elements as required by the GLBA due to a misunderstanding of the requirements as well as limited staffing resources. Blue Ridge should dedicate the necessary resources to develop or revise its information security program to ensure that it includes all elements required by GLBA. Completing the requirements outlined by GLBA will assist the college in evaluating its information security program and protecting the confidentiality, integrity, and availability of customer information within its environment.

2023-31: Perform an Evaluation of Student Information System Access Roles for College Personnel

Type: Internal Control and Compliance

Severity: Significant Deficiency

Blue Ridge personnel did not properly grant student information system roles and privileges. Specifically, we found 11 of 36 (31%) employees have access to financial aid data; however, their access roles do not align with their job responsibilities. The underlying cause for improper access is Blue Ridge assigning access based on a management-adopted approach, which does not fully align with the principles of least privilege. By not properly assigning access based on job responsibilities, Blue Ridge is at risk for having employees with improper access levels that do not align with concept of least privilege or allow for segregation of duties.

In accordance with 2 CFR § 200.303(e), the recipient entity must take reasonable measures to safeguard protected personally identifiable information and other information the federal awarding agency or pass-through entity designates as sensitive, or the recipient entity considers sensitive consistent with applicable, federal, state, and local laws regarding privacy and responsibility over confidentiality. Further, the System's IT Security Standard states that the System must allocate privileges to users on a need-to-use basis and on an event-by-event basis, i.e., the minimum requirement for their functional role only when needed and the college should use the principle of least privilege in the assignment of security roles and responsibilities. In addition, the System's Role Reference Guide identifies access roles that are critical due to potential conflicts considering the concept of segregation of duties. For segregation of duties, the System's Security Standard states that "segregation of duties will be implemented, where appropriate, to reduce the risk of negligent or deliberate system misuse."

Blue Ridge information security personnel and management should perform a thorough evaluation of employees with student information system access and grant system roles based upon the principle of least privilege and considering job responsibilities.

2023-32: Properly Return Unearned Title IV Aid to Department of Education**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

Blue Ridge's Financial Aid Office did not properly return unearned Title IV aid to the U.S. Department of Education (Education). In one of 12 students (8%) tested, Blue Ridge staff did not return unearned Title IV aid after performing a return of Title IV calculation resulting in a total over award of \$1,102 in Pell grants. Blue Ridge management indicated the exceptions were due to staff oversight.

In accordance with 34 CFR § 668.21(b), the institution must return those funds for which it is responsible as soon as possible, but no later than 45 days, after the date that the institution becomes aware that a student has withdrawn. By not returning funds, the institution is not in compliance with federal requirements and may be subject to potential adverse actions affecting Blue Ridge's participation in Title IV Programs. Blue Ridge management should review its current procedures and resources and should implement corrective measures to ensure the Financial Aid Office returns unearned Title IV funds to Education in a timely manner.

2023-33: Promptly Disburse Credit Balances to Students**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

Blue Ridge business office personnel do not promptly disburse credit balances to students. For 12 of 23 (52%) students, the business office disbursed credit balances 15 days after each student received a credit on his or her student account. Blue Ridge management indicated the delays were due to shifting job duties among the business office staff during the disbursement process in February 2023 and did not prioritize disbursing the credit balances to ensure compliance.

Title 34 CFR § 668.164(d)(1)(i)(A) & (ii)(A) and 34 CFR § 668.164(h)(2)(i) & (ii) states that a school may pay a credit balance by initiating an electronic funds transfer (EFT) to a bank account the student or parent designates. A school that is paying a student his or her credit balance with a direct disbursement must pay the student within 14 days or be able to provide payment to the student upon demand within 14 days of crediting the student's account. Regardless of the method used, a school must disburse the credit balance within the regulatory time frame. By not disbursing the funds timely, the institution is subject to potential adverse actions that may affect the college's participation in Title IV aid programs. The business office should implement the necessary policies and procedures to disburse credit balances to students timely, ensuring the college's disbursement of federal aid aligns with federal requirements.

2023-34: Improve Reporting to National Student Loan Data System**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2019**Prior Title:** Improve Enrollment Reporting Process

Blue Ridge student records personnel did not report accurate and timely enrollment data to the National Student Loan Data System (NSLDS) for students that graduated, withdrew, or had an enrollment level change. Blue Ridge indicated the exceptions were due to a lack of management oversight. From our review of 40 students, we noted the following instances of noncompliance:

- The enrollment status was inaccurate for six students (15%);
- The effective date was inaccurate for four students (10%);
- Blue Ridge did not report enrollment status changes timely for five students (13%); and
- At least one campus or program-level field deemed critical was inaccurate for six students (15%).

In accordance with 34 CFR § 690.83(b)(2) an institution shall submit, in accordance with deadline dates established by the Secretary, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure the reports are correct. As further outlined in Education's NSLDS Enrollment Guide, institutions are required to certify enrollment every 60 days at a minimum. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. Blue Ridge's inaccurate and untimely enrollment data submissions to the NSLDS can affect Education's reliance on the system for monitoring purposes. Noncompliance may also impact an institution's participation in Title IV programs.

Blue Ridge management should evaluate its current enrollment reporting procedures and implement corrective action to ensure that the college is reporting accurate and timely student enrollment status changes to the NSLDS. Management should also consider implementing a quality control review process to monitor the accuracy of campus and program-level batch submissions.

GERMANNA COMMUNITY COLLEGE

2023-35: Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets**Type:** Internal Control**Severity:** Significant Deficiency

Germanna did not properly record certain capital assets in the System's accounting information system during the fiscal year. In addition, Germanna did not properly evaluate license components of

the purchases to determine if they should be reported as right-to-use intangible assets under GASB Statement No. 96, Subscription-Based Information Technology Arrangements.

Germannanna did not properly evaluate capitalization of two of five (40%) potential capital asset vouchers sampled. Each voucher included multiple components such as equipment assets and software licenses. Individually, several equipment assets did not exceed the System's \$5,000 capitalization threshold; however, these individual items function as a single unit when installed and together, exceed the capitalization threshold. As a result of Germanna not capitalizing the equipment assets, the System understated capital asset additions by approximately \$543,000 and understated depreciation expense by five months for one asset and three months for the other. Additionally, because Germanna did not evaluate the license component of the purchases for proper treatment under GASB Statement No. 96, the System understated intangible right-to-use assets, net of related amortization, by approximately \$195,000; understated the associated SBITA liability; and overstated current fiscal year operating expenses.

The System's Capital Assets Policies and Procedures Manual states that colleges should capitalize component parts as a unit. A component part is that part of a unit of equipment that an entity cannot use independently or physically connects to the major asset. This definition applies even though an individual component part may not meet the capitalization criteria by itself. Further, GASB Statement No. 96 prescribes that contracts may contain multiple components, and preparers of governmental financial statements should evaluate those components separately as subscription and non-subscription components. The primary cause for inaccurately recording the capital assets is the college applied its internal Fixed Asset Management policy, as opposed to the System Office's policy, which depicts the college should capitalize the component parts as a unit. Additionally, Germanna's limited resources contributed to the college not capitalizing all license components in accordance with GASB Statement No. 96.

Germannanna should ensure its Fixed Asset Management policy fully aligns with applicable System Office policies to ensure that the college capitalizes multiple component purchases as a unit, when applicable. Lastly, Germanna should allocate sufficient resources to evaluate the individual components of any purchases containing subscription-based information technology and recognize those components in accordance with GASB Statement No. 96.

DANVILLE COMMUNITY COLLEGE

2023-36: Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets

Type: Internal Control

Severity: Significant Deficiency

Danville did not properly record certain capital assets in the System's accounting information system during the fiscal year. In addition, Danville did not properly evaluate license components of the purchases to determine if the college should report the components as right-to-use intangible assets under GASB Statement No. 96, Subscription-Based Information Technology Arrangements. During our review we identified the following deficiencies:

- Danville did not add the two (100%) sampled equipment assets to the accounting information system timely, as the college entered the assets between 109 and 323 days after the actual receipt date. Additionally, the college used the date of entry into the accounting information system as the acquisition date. As a result of the error, the System's financial statements understated associated depreciation expense by approximately \$5,400 for fiscal year 2023.
- Danville did not identify and capitalize equipment in the two (100%) sampled equipment vouchers. The college expensed one voucher which contained multiple components that function as a unit but individually, did not exceed the System's capitalization threshold. Another voucher contained potential subscription-based information technology components that the college did not properly evaluate under the requirements of GASB Statement No. 96. As a result, the System's financial statements understated capital asset equipment additions by approximately \$39,500 and understated the associated depreciation expense by three months. Additionally, the financial statements understated right-to-use intangible assets, along with related associated amortization by approximately \$255,100; understated the associated SBITA liability; and overstated current fiscal year operating expenses.

The System's Capital Assets Policies and Procedures Manual requires the college to record asset purchases when the college acquires title and places the item in service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. The college should ensure recording of all equipment purchased and paid for by June 30 by the established census date. In addition, the college should capitalize component parts as a unit, when exceeding applicable capitalization thresholds. A component part is that part of a unit of equipment that an entity cannot use independently or physically connects to the major asset. This definition applies even though an individual component part may not meet the capitalization criteria by itself. CAPP Manual Topic 30205 states that institutions should post assets within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly. Further, GASB Statement No. 96 prescribes that contracts may contain multiple components, and preparers of governmental financial statements should evaluate those components separately as subscription and non-subscription components. The primary cause for inaccurately recording the SBITA assets is a misunderstanding in communications between the System Office and Danville. In addition, the college did not add capital assets timely to the accounting information system due to staff turnover. Lastly, Danville's Fiscal Division misunderstood how the components of the potential capital asset purchase functioned resulting in inaccurate recording within the accounting information system.

Danville should gain a thorough understanding of how components of a purchase function to ensure that the college capitalizes multiple component vouchers as a unit, when applicable, and when the combined assets exceed the System's capitalization thresholds. Lastly, Danville should evaluate purchases containing subscription-based information technology, recognize those components in accordance with GASB Statement No. 96 reporting requirements, and ensure that any communications with System Office are properly accounted for within the lease accounting system.

PIEDMONT VIRGINIA COMMUNITY COLLEGE

2023-37: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

Piedmont Virginia continues to lack adequate policies and procedures to ensure proper identification and reporting of leases in accordance with GASB Statement No. 87 - Leases. GASB delayed the implementation of the accounting standard by one year, providing preparers of financial statements additional time to prepare. However, as of the end of fiscal year 2024, Piedmont Virginia has not implemented corrective action related to the following items communicated during the prior year's audit:

- The Business Office did not review contract documents or work with other departments within Piedmont Virginia to identify the complete population of leases. As a result, it did not perform an evaluation of a vehicle leased from the Department of General Services to determine if it met the GASB Statement No. 87 lease reporting requirements.
- The Business Office did not consistently determine the lease term for the leases across all contracts. As a result, the college added incorrect lease terms exceeding contract obligations to the lease accounting system for multiple leases.
- The Business Office did not report variable costs associated with Piedmont Virginia's leases to the System Office for disclosure within the financial statements.
- The Business Office did not develop GASB Statement No. 87 implementation policies and procedures to ensure consistent application across contracts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the college incurs the obligation for those payments. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement.

Piedmont Virginia did not have an accurate understanding of the Commonwealth's lease accounting system and the ability to make prior period adjustments, which resulted in inaccurate corrective action for the issues communicated in the prior year. Piedmont Virginia should ensure the individuals evaluating, tracking, recording, and reporting leases obtain appropriate resources to ensure they have a thorough understanding of the requirements of GASB Statement No. 87. Management

should develop, implement, and update policies and procedures regularly over the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the calculation of the lease liability and ensure that the college reports these costs to the System Office for inclusion in the financial statements. In addition, Piedmont Virginia should perform an evaluation of its contracts to ensure the college properly captures all leases, corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.

EASTERN SHORE COMMUNITY COLLEGE

2023-38: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

Eastern Shore continues to lack adequate policies and procedures to ensure proper identification and reporting of leases in accordance with GASB Statement No. 87 - Leases. GASB delayed the implementation of the accounting standard by one year, providing preparers of financial statements additional time to prepare. However, as of the end of fiscal year 2024, Eastern Shore has not implemented corrective action related to the following items communicated during the prior year's audit:

- The Business Office did not review contract documents or work with other departments within Eastern Shore to identify the complete population of leases. As a result, the Business Office did not perform an evaluation of a space use agreement with the Department of General Services, a postage machine lease, and a vehicle leased from the Department of General Services to determine if they met the GASB Statement No. 87 lease reporting requirements.
- The Business Office did not consistently determine the lease term and asset grouping of the leases across all contracts.
- The Business Office did not report variable costs associated with Eastern Shore's leases to the System Office for separate disclosure within the financial statements.
- The Business Office did not develop GASB Statement No. 87 policies and procedures to ensure consistent application across contracts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the college incurs the obligation for those payments. CAPP Manual Topics 31205

through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement. Although Eastern Shore began corrective action during fiscal year 2024, the Business Office did not dedicate the time and resources necessary to fully implement corrective action.

Eastern Shore should ensure the individuals evaluating, tracking, recording, and reporting leases obtain appropriate resources to ensure they have a thorough understanding of the requirements of GASB Statement No. 87. Management should develop, implement, and update policies and procedures regularly over the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the calculation of the lease liability and ensure that the college reports these costs to the System Office for inclusion in the financial statements. In addition, the Business Office should perform an evaluation over Eastern Shore's contracts to ensure the college properly captures all leases, corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.

2023-39: Properly Report CIP Codes in Federal Systems

Type: Internal Control and Compliance

Severity: Significant Deficiency

Eastern Shore's Registrar's Office personnel did not properly report accurate Classification of Instructional Program (CIP) Code data to Education using the Common Origination and Disbursement (COD) system and NSLDS. For nine of 25 students (36%), Eastern Shore reported incorrect CIP code data to Education. The CIP code provides a taxonomic scheme that supports accurate tracking and reporting of fields of study and program completion activity. The underlying cause for the noncompliance is management oversight.

In accordance with 34 CFR § 690.83(b)(2), an institution shall submit, in accordance with deadline dates established by the Secretary, through publication in the Federal Register, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct. By Eastern Shore reporting inaccurate CIP code information, Education does not have accurate information from which to make funding decisions. Management should correct the miscoding and, moving forward, implement corrective measures to prevent future noncompliance.

2023-40: Promptly Disburse Credit Balances to Students

Type: Internal Control and Compliance

Severity: Significant Deficiency

Eastern Shore Business Office personnel did not promptly disburse credit balances to students. For three of 22 (14%) students, the Business Office disbursed credit balances up to 47 days after each student received a credit on his or her student account. Management indicated the delays were due to a lack of management oversight.

In accordance with 34 CFR § 668.164(d)(1)(i)(A) & (ii)(A) and 34 CFR § 668.164(h)(2)(i) & (ii), a school may pay a credit balance by initiating an EFT to a bank account the student or parent designates. An institution that is paying a student his or her credit balance with a direct disbursement must pay the student within 14 days or be able to provide payment to the student upon demand within 14 days of crediting the student's accounts. Regardless of the method used, an institution must disburse the credit balance within the regulatory time frame. By not disbursing the funds timely, the institution is subject to potential adverse actions that may affect the college's participation in Title IV aid programs. The Business Office should strengthen its policies and procedures to disburse credit balances to students timely, thus ensuring Eastern Shore's disbursement of federal aid aligns with federal requirements.

2023-41: Perform an Evaluation of Student Information System Access Roles for College Personnel

Type: Internal Control and Compliance

Severity: Significant Deficiency

Eastern Shore personnel did not properly grant student information system roles and privileges. Specifically, we found two of 11 (18%) employees have access to financial aid data; however, their access roles do not align with their job responsibilities. The underlying cause for improper access is Eastern Shore assigning access based on a management-adopted approach due to staff turnover in the financial aid office, which does not fully align with the principle of least privilege. By not properly assigning access based on job responsibilities, Eastern Shore is at risk of having employees with improper access levels that do not align with the principle of least privilege or allow for segregation of duties.

In accordance with 2 CFR § 200.303(e), the recipient entity must take reasonable measures to safeguard protected personally identifiable information and other information the federal awarding agency or pass-through entity designates as sensitive, or the recipient entity considers sensitive consistent with applicable federal, state, and local laws regarding privacy and responsibility over confidentiality. Further, the System's IT Security Standard states that the System must allocate privileges to users on a need-to-use basis and on an event-by-event basis, i.e., the minimum requirement for their functional role only when needed and the college should use the principle of least privilege in the assignment of security roles and responsibilities. In addition, the System's Role Reference Guide identifies access roles that are critical due to potential conflicts considering the concept of segregation of duties. The System's Security Standard states that "segregation of duties will be implemented, where appropriate, to reduce the risk of negligent or deliberate system misuse."

Eastern Shore information security personnel and management should perform a thorough evaluation of employees with student information system access and grant system roles based upon the principle of least privilege and in consideration of job responsibilities.

2023-42: Reconcile Federal Account**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

Eastern Shore's Business Office did not adequately identify and resolve two reconciling items totaling \$9,108 when completing the monthly reconciliations between its automated accounting records, local federal bank account, and Education's grant management system during aid year 2023. Eastern Shore management indicated the staff did not prioritize identifying and resolving the reconciling items.

In accordance with 34 CFR § 676.19(b)(2), institutions shall establish, maintain, and reconcile program and fiscal records at least monthly. By not reconciling federal student aid programs monthly as required, Eastern Shore increases its risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal noncompliance and may lead to potential adverse actions that impact participation by the institution in Title IV programs. Eastern Shore's Business Office should identify and resolve all errors when completing the monthly reconciliations.

2023-43: Promptly Return Unearned Title IV Aid to Department of Education**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

Eastern Shore's financial aid office personnel did not consistently return Title IV funds to Education within the required timeframe. For one of four students (25%), the date Eastern Shore returned the unearned funds was greater than 45 days after the date of determination. The underlying cause for the noncompliance is a result of management turnover.

In accordance with 34 CFR § 668.21(b), the institution must return those funds for which it is responsible as soon as possible, but no later than 45 days after the date that the institution becomes aware that a student has withdrawn. By not returning funds in a timely manner, the institution is not in compliance with federal requirements and may be subject to potential adverse actions affecting participation in Title IV programs. The financial aid office should return unearned Title IV funds to Education within the required timeframe to prevent future noncompliance.

2023-44: Properly Perform Return of Title IV Calculations**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

Eastern Shore financial aid office personnel did not properly calculate the return of Title IV funds for the fall 2022 term. For two of four students (50%), the calculation was not accurate resulting in underpayments of \$39. Eastern Shore personnel did not perform the calculation in accordance with federal regulations because of an inaccurate exclusion of scheduled break days. Eastern Shore management indicated the miscalculations were due to management turnover in this area.

In accordance with 34 CFR § 668.22, when a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. The total number of calendar days in a payment period includes all days within the period that the student completed, excluding scheduled breaks of at least five consecutive days. Volume 5 of the Federal Student Financial Aid Handbook states that a break from Monday through Friday should include the weekend before and the weekend after unless the institution offered classes the prior Saturday or Sunday. Management should ensure staff correctly enter the scheduled breaks into its information system. Management should also implement corrective action to prevent future noncompliance.

2023-45: Promptly Identify Title IV Withdrawals

Type: Internal Control and Compliance

Severity: Significant Deficiency

Eastern Shore financial aid office personnel did not identify students who withdrew in the Spring 2023 term within 30 days of the term ending. For three of 14 students (21%), Eastern Shore did not timely identify the students requiring a Title IV return calculation. The underlying cause for noncompliance is turnover in management responsible for identifying Title IV students that have withdrawn.

In accordance with 34 CFR § 668.22, (j) (2), for institutions that are not required to take attendance, an institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the (i) payment period or period of enrollment; (ii) academic year in which the student withdrew; or (iii) the educational program from which the student withdrew. By not identifying students who withdraw timely, the institution is not in compliance with federal requirements and may be subject to potential adverse actions affecting participation in Title IV programs. Eastern Shore management should implement necessary corrective measures to ensure business continuity, including the proper identification of Title IV students that have withdrawn in a timely manner.

2023-46: Promptly Return Unclaimed Aid to Department of Education

Type: Internal Control and Compliance

Severity: Significant Deficiency

Eastern Shore Business Office personnel did not return unclaimed student financial aid funds to Education within the required timeframe. Specifically, we reviewed all 12 students with unclaimed aid and found Eastern Shore personnel did not return a total of \$1,309. Eastern Shore management did not have an accurate understanding of the requirements to return unclaimed aid from previous aid years.

In accordance with 34 CFR § 668.164(l), if an institution attempts to disburse the funds by check and the recipient does not cash the check, the institution must return the funds no later than 240 days after the date it issued that check or no later than 45 days after the rejection of an EFT. By not returning funds timely, the institution is subject to potential adverse actions that may affect participation in Title

IV aid programs. Eastern Shore should ensure staff responsible for tracking unclaimed student financial aid have a thorough understanding of the federal requirements. If the Business Office is unable to contact the federal aid recipient, and the check remains uncashed or the banking institution rejects the EFT, the Business Office should return the unclaimed funds to Education within the required timeframe. Additionally, the Business Office should develop policies and procedures that include how to return unclaimed student financial aid to Education timely.

2023-47: Ensure an Accurate FISAP is Submitted to Department of Education

Type: Internal Control and Compliance

Severity: Significant Deficiency

Eastern Shore management inaccurately reported two fields on its Fiscal Operations Report and Application to Participate (FISAP). Management overstated enrollment by 311 students in Section II, Field 7 and overstated tuition and fees by \$10,053 in Section II, Field 22. Eastern Shore management did not have an accurate understanding of the FISAP report to be able to properly prepare the report.

In accordance with 34 CFR § 675.19 (b)(3) and 676.19(b)(3), each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall report accurate information on the form and submit it at the time the Secretary specifies. The FISAP instructions provided by Education further inform institutions of what to report in Section II, Fields 7 and 22. Per this guidance, institutions should exclude dual-enrolled high school students from the enrollment total and exclude tuition and fee revenue collected from individuals not meeting the description of an enrolled student. By inaccurately reporting information on the FISAP, Education does not have accurate information from which to make funding decisions. Management should review FISAP instructions to ensure they have an accurate understanding of the requirements for reporting the proper amounts in Section II, Fields 7 and 22 of the FISAP.

2023-48: Improve Reporting to National Student Loan Data System

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2017

Eastern Shore student records personnel did not report accurate and timely enrollment data to NSLDS for students that graduated, withdrew, or had an enrollment level change. Eastern Shore indicated the exceptions were due to a lack of management oversight. For 25 students reviewed, we noted the following instances of noncompliance:

- The enrollment status was inaccurate for two students (8%);
- The effective date was inaccurate for three students (12%);
- Eastern Shore did not report enrollment status changes timely for six students (24%);
- The CIP Code data was inaccurate for ten students (40%); and,

- At least one campus or program-level field deemed critical was inaccurate for 12 students (48%).

In accordance with 34 CFR § 690.83(b)(2) an institution shall submit, in accordance with deadline dates established by the Secretary, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure the reports are correct. As further outlined in Education's NSLDS Enrollment Guide, institutions are required to certify enrollment every 60 days at a minimum. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. Eastern Shore's inaccurate and untimely enrollment data submissions to the NSLDS can affect Education's reliance on the system for monitoring purposes. Noncompliance may also impact an institution's participation in Title IV programs.

Eastern Shore management should evaluate its current enrollment reporting procedures and implement corrective action to ensure that the college reports accurate and timely student enrollment status changes to NSLDS. Management should also consider implementing a quality control review process to monitor the accuracy of campus and program-level batch submissions.

PATRICK & HENRY COMMUNITY COLLEGE

2023-49: Improve Financial Reporting of Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Patrick & Henry did not properly record certain capital assets in the System's accounting information system during the fiscal year. Our review found that Patrick & Henry entered the incorrect acquisition value and date for one of two (50%) sampled equipment assets added to the accounting information system. The acquisition date the college entered was 13 days after the actual acquisition date.

The System's Capital Assets Policies and Procedures Manual requires purchased assets to be recorded when the college acquires title and places the items into service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. The college should ensure recording of all equipment purchased and paid for by June 30 by the established census date. CAPP Manual Topic 30205 states that assets should be posted within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly. Lastly, the acquisition cost of an asset should include the purchase price and all legitimate costs incurred to place the asset in its intended location in an operable condition.

The primary cause for the deficiencies is Patrick & Henry estimating acquisition cost using the quoted cost instead of waiting until the college received the final invoice, which it received in an untimely manner. Improper recording of capital assets increases the risk of misstating asset balances and their

corresponding depreciation, which can affect the System's financial statements. Patrick & Henry should adhere to the System's Capital Asset Policies and Procedures Manual and ensure that the college includes all costs associated with the acquisition of a capital asset in the acquisition value recorded in the accounting information system. In addition, Patrick & Henry should record the acquisition date as the date that the college receives and accepts the asset.

NEW RIVER COMMUNITY COLLEGE

2023-50: Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets

Type: Internal Control

Severity: Significant Deficiency

New River did not properly record certain capital assets in the System's accounting information system during the fiscal year. In addition, New River did not properly evaluate license components of the purchases to determine if the college should report the components as right-to-use intangible assets under GASB Statement No. 96, Subscription-Based Information Technology Arrangements. During our review we identified the following deficiencies:

- New River entered the incorrect cost for the two (100%) sampled equipment assets added to the accounting information system resulting in a net understatement of capital assets by approximately \$2,142 before depreciation.
- New River did not add the two (100%) sampled equipment assets to the accounting information system timely, as the college entered the assets between 36 and 170 days after the date of receipt.
- New River did not identify and capitalize equipment in one of two (50%) sampled equipment vouchers. The voucher included multiple components including equipment assets and subscription-based information technology components. Individually, the equipment assets did not exceed the System's capitalization threshold; however, the components function as a unit and together, the combined cost exceeds the capitalization threshold. As a result, the System's financial statements understated capital asset additions by approximately \$75,400 and understated associated depreciation expense by nine months. Additionally, the financial statements understated right-to-use intangible assets, along with related amortization by approximately \$68,700; understated the associated SBITA liability; and overstated current fiscal year operating expenses.

The System's Capital Assets Policies and Procedures Manual requires the college to record asset purchases when the college acquires title and places the item in service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. The college should ensure recording of all equipment purchased and paid for by June 30 by the established census date. In addition, the college should capitalize component parts as a unit, when exceeding applicable capitalization thresholds. A component part is that part of a unit of equipment that an entity cannot use independently

or physically connects to the major asset. This definition applies even though an individual component part may not meet the capitalization criteria by itself. CAPP Manual Topic 30205 states that institutions should post assets within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly. Further, GASB Statement No. 96 prescribes that contracts may contain multiple components, and preparers of governmental financial statements should evaluate those components separately as subscription and non-subscription components. The primary cause for inaccurately recording the capital assets is turnover in key positions as well as a misunderstanding of how the components of the potential capital asset purchase functioned.

New River should gain a thorough understanding of how the components of the capital asset purchase function to ensure that the college capitalizes multiple component purchases as a unit, when applicable, and when the combined asset exceeds the System's capitalization thresholds. Lastly, New River should evaluate the individual components of any purchases containing subscription-based information technology and recognize those components in accordance with GASB Statement No. 96.

PAUL D. CAMP COMMUNITY COLLEGE

2023-51: Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act

Type: Internal Control and Compliance

Severity: Significant Deficiency

Camp does not comply with certain elements of the GLBA related to its information security program. Public Law 106-102, known as the GLBA, considers institutions of higher education to be financial institutions because of their engagement in financial assistance programs. Related regulations at 16 CFR §§ 314.3 and 314.4 require organizations to develop, implement, and maintain the information security program to safeguard customer information. Specifically, Camp does not comply with the following GLBA requirements:

- While Camp's written information security program states the college will ensure third parties implement, operate, and maintain security controls defined in agreements, Camp does not have procedures for how it will oversee its third-party service providers. GLBA requires organizations to oversee service providers by periodically assessing service providers based on the risk they present and the continued adequacy of their safeguards. Additionally, the GLBA requires organizations to document procedures for evaluating, assessing, or testing the security of externally developed applications utilized for transmitting, accessing, or storing customer information. Not formally developing procedures to periodically assess its service providers could result in unaddressed vulnerabilities, which may result in the compromise of the college's sensitive information and data.
- Camp did not perform a review and update for one of its four completed risk assessments used to develop its information security program, resulting in the exclusion of planned

security controls. While Camp updated the risk assessment, the update did not occur until audit inquiry after the fiscal year 2023 audit period. GLBA requires that colleges assess the sufficiency of any safeguards in place to control risks identified by risk assessments. By not assessing the sufficiency of planned or implemented safeguards to mitigate the identified risks, Camp may not implement effective controls to protect its sensitive information and data.

- Camp documents a standard operating procedure requiring the encryption of data; however, the procedure requires the TLS 1.1 encryption algorithm. The Internet Engineering Task Force formally deprecated TLS 1.1 in March 2021 because the version lacks support for current and recommended cryptographic algorithms and mechanisms. GLBA requires that Camp protect by encryption all customer information held or transmitted by Camp both in transit over external networks and at rest. Implementing a deprecated encryption algorithm such as TLS 1.1 increases the scope of an attack and increases opportunity for misconfiguration, which could compromise the college's confidential data.
- Camp documents a change management standard operating procedure that refers to making changes in accordance with change management procedures; however, Camp does not formally document these procedures. GLBA requires organizations to document procedures for change management. Without clearly defined and documented change management procedures, Camp may inconsistently develop, test, and implement changes to its information technology environment, which may result in insecure systems and a compromise of its confidential information.

Camp did not include all elements as required by the GLBA due to a misunderstanding of the requirements as well as limited staffing resources. Camp should dedicate the necessary resources to develop or revise its information security program to ensure that it includes all elements required by GLBA. Completing the requirements outlined by GLBA will assist Camp in evaluating its information security program and protecting the confidentiality, integrity, and availability of customer information within its environment.

2023-52: Promptly Disburse Credit Balances to Students

Type: Internal Control and Compliance

Severity: Significant Deficiency

Camp Business Office personnel did not promptly disburse credit balances to students. For six out of 32 (19%) disbursements reviewed, the Business Office disbursed refunds up to 17 days after each student received a credit on his or her account. The delays were attributed to a lack of policies and procedures including well-defined roles and responsibilities.

In accordance with 34 CFR § 668.164(d)(1)(i)(A) & (ii)(A) and 34 CFR § 668.164(h)(2)(i) & (ii), a school may pay a credit balance by initiating an EFT to a bank account the student or parent designates. A school that is paying a student his or her credit balance with a direct disbursement must pay the student within 14 days or be able to provide payment to the student upon demand within 14 days of

crediting the student's accounts. Regardless of the method used, a school must disburse the credit balance within the regulatory timeframe. By not disbursing the funds timely, the institution is subject to potential adverse actions which may affect its participation in Title IV aid programs. The Business Office should strengthen its policies and procedures to disburse credit balances to students timely, thus ensuring Camp's disbursement of Title IV aid aligns with federal requirements.

2023-53: Promptly Return Unclaimed Aid to Department of Education

Type: Internal Control and Compliance

Severity: Significant Deficiency

Camp Business Office personnel did not return unclaimed student financial aid funds to Education within the required timeframe. Specifically, the Business Office did not return nine Title IV payments to students totaling \$1,243. The underlying cause of the noncompliance is employee turnover and a lack of policies and procedures including well-defined roles and responsibilities for returning unclaimed funds.

In accordance with 34 CFR § 668.164(l), if an institution attempts to disburse the funds by check and the recipient does not cash the check, the institution must return the funds no later than 240 days after the date it issued that check or no later than 45 days after the rejection of an EFT. By not returning funds timely, the institution is subject to potential adverse actions that may affect Camp's participation in Title IV aid programs.

Camp should strengthen policies and procedures to ensure staff responsible for tracking unclaimed student financial aid have a thorough understanding of the requirements for returning unclaimed aid to Education. If the Business Office is unable to contact the federal aid recipient, and the check remains uncashed or the banking institution rejects the EFT, the Business Office should return the unclaimed funds to Education within the required timeframe.

2023-54: Reconcile Federal Account

Type: Internal Control and Compliance

Severity: Significant Deficiency

Camp Business Office did not properly post drawdowns to the accounting system, nor reconcile internal accounting records with bank accounts or the federal drawdown system. We determined the following:

- For three (100%) months sampled, the Business Office did not perform a reconciliation of the federal drawdown system to the general ledger or bank account.
- For six out of seven drawdowns (86%) totaling \$1,322,432, the Business Office did not properly post drawdowns to the accounting system.

The underlying cause for noncompliance is employee turnover and lack of policies and procedures including well-defined roles and responsibilities. The College has engaged a third-party firm

to perform a review of and reconcile the federal bank account and corresponding transactions in the accounting system.

In accordance with 34 CFR § 675.19(b)(2)(iv), 34 CFR § 676.19(b)(2) and 34 CFR § 685.300(b)(5), “institutions shall establish and maintain program and fiscal records that are reconciled at least monthly. On a monthly basis, the institution must reconcile institutional records with Direct Loan Funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary.” The Student Financial Aid Handbook further states that “schools must reconcile, at least monthly, Campus-Based Funds to the designated bank accounts accounting for any discrepancies. The school must have a system that reconciles drawdowns for the award year at least monthly in the individual Campus-Based Programs, plus any funds provided by the school or received from other sources to the amounts expended in the Campus-Based Programs. A school that participates in the Direct Loan Program is required to reconcile cash (funds it received from the G5 system to pay its students) with disbursements (actual disbursement records) it submitted to the Common Origination and Disbursement (COD) system monthly.” By not reconciling federal student aid programs monthly as required, Camp increases its risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal noncompliance and may lead to potential adverse actions that impact Camp’s participation in Title IV programs.

Camp’s Business Office should ensure that reconciliations for campus-based programs and federal direct loans are performed monthly as required and if applicable, resolve all discrepancies timely. The Business Office should continue to work with the third-party firm to ensure that reconciliations are completed and drawdowns properly posted to the general ledger. Management should ensure that policies and procedures are designed effectively to prevent future noncompliance.

2023-55: Strengthen the Schedule of Expenditures of Federal Awards Review Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Camp Business Office personnel did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA), a schedule that details the amount of federal expenditures for fiscal year 2023. The SEFA understated Pell expenditures by \$519,934; understated Workforce Investment Act – Youth Activities expenditures by \$297,009; and overstated Career and Technical Education – Basic Grants to States expenditures by \$31,423. The underlying cause of the noncompliance is employee turnover coupled with a lack of policies and procedures including well-defined roles and responsibilities. The remaining errors are a result of an inadequate review process attributable to duplicate entries being included within the respective federal programs.

In accordance with 2 CFR § 200.510(b), “the auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with § 200.502.” The Department of Accounts (Accounts) Comptroller’s Directive 2-23 provides specific directions for compiling the SEFA and supporting schedules, including the “total amount provided to subrecipients from each Federal program,” to support its preparation of the Commonwealth’s SEFA and related disclosures. Providing

inaccurate schedules to Accounts could result in misstatement of the Commonwealth's SEFA and related disclosures. Management should strengthen its current policies and procedures over the SEFA preparation and review process to ensure Camp includes accurate federal expenditure amounts on the SEFA.

RAPPAHANNOCK COMMUNITY COLLEGE

2023-56: Improve Financial Reporting of Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Rappahannock did not properly record certain capital assets in the System's accounting information system during the fiscal year. During our review we identified the following deficiencies:

- Rappahannock did not add the two (100%) sampled equipment assets to the accounting information system timely, as the college entered the assets between 86 and 150 days after receipt and acceptance of the asset.
- Rappahannock entered the incorrect acquisition date for one of two (50%) sampled equipment assets added to the accounting information system. The date the college recorded for this asset was 241 days after the actual acquisition date. The college also entered a date 40 days after the actual acquisition date for one additional equipment voucher selected.

The System's Capital Assets Policies and Procedures Manual requires institutions to record asset purchases when the college acquires title and places the items into service. For equipment purchases, the System assumes title passes at the date the college receives the equipment. The college should ensure recording of all equipment purchased and paid for by June 30 by the established census date. CAPP Manual Topic 30205 states that institutions should post assets within 30 days after receipt and acceptance of the asset. Further, each agency and institution should implement internal control procedures to acquire assets using an acceptable method of acquisition, record assets in a timely manner, and account for all assets properly. The primary cause of the deficiencies is a staffing shortage in key positions resulting in delays in processing and entering data into the accounting information system. Improper recording of capital assets increases the risk of misstating asset balances and their corresponding depreciation, which can affect the System's financial statements. Rappahannock should ensure it dedicates sufficient resources to adhere to the VCCS Capital Asset Policies and Procedures Manual to record capital assets when received.

2023-57: Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act**Type:** Internal Control and Compliance**Severity:** Significant Deficiency

Rappahannock does not comply with certain elements of the GLBA related to its information security program. Public Law 106-102, known as GLBA, considers institutions of higher education to be financial institutions because of their engagement in financial assistance programs. Related regulations at 16 CFR §§ 314.3 and 314.4 require organizations to develop, implement, and maintain the information security program to safeguard customer information. Specifically, Rappahannock does not comply with the following GLBA requirements:

- While Rappahannock's written information security program states the college will ensure third parties implement, operate, and maintain security controls defined in agreements, Rappahannock does not have procedures for how it will oversee its third-party service providers. GLBA requires organizations to oversee service providers by periodically assessing service providers based on the risk they present and the continued adequacy of their safeguards. Additionally, GLBA requires organizations to document procedures for evaluating, assessing, or testing the security of externally developed applications utilized for transmitting, accessing, or storing customer information. Not formally developing procedures to periodically assess its service providers could result in unaddressed vulnerabilities, which may result in the compromise of the college's sensitive information and data.
- Rappahannock does not have a formally written requirement or procedure to conduct a periodic inventory of data. GLBA requires Rappahannock to include as part of its written information security program a requirement for identifying and managing data, personnel, devices, systems, and facilities that enable it to achieve business purposes in accordance with their relative importance to business objectives and risk strategy. Without a process in place to periodically conduct an inventory of data, the college increases the risk that it may misplace or improperly account for data within its systems, which could result in the lack of appropriate security controls and the compromise of the college's confidential data.
- Rappahannock documents a standard operating procedure requiring the encryption of data; however, the procedure requires the TLS 1.1 encryption algorithm. The Internet Engineering Task Force formally deprecated TLS 1.1 in March 2021 because the version lacks support for current and recommended cryptographic algorithms and mechanisms. GLBA requires that colleges protect by encryption all customer information held or transmitted by Rappahannock both in transit over external networks and at rest. Implementing a deprecated encryption algorithm such as TLS 1.1 increases the scope of an attack and increases opportunity for misconfiguration, which could compromise the college's confidential data.
- Rappahannock documents a change management standard operating procedure that refers to making changes in accordance with change management procedures; however, Rappahannock does not formally document these procedures. GLBA requires organizations

to document procedures for change management. Without clearly defined and documented change management procedures, Rappahannock may inconsistently develop, test, and implement changes to its information technology environment, which may result in insecure systems and a compromise of its confidential data.

Rappahannock did not include all elements as required by GLBA due to a misunderstanding of the requirements as well as limited staffing resources. Rappahannock should dedicate the necessary resources to develop or revise its information security program to ensure that it includes all elements required by GLBA. Completing the requirements outlined by GLBA will assist the college in evaluating its information security program and protecting the confidentiality, integrity, and availability of customer information within its environment.

2023-58: Properly Return Unearned Title IV Aid to Department of Education

Type: Internal Control and Compliance

Severity: Significant Deficiency

Rappahannock's financial aid office personnel did not return the correct amount of unearned Title IV aid to Education. For one of nine students (11%) tested, Rappahannock's staff did not return the correct amount of unearned Title IV aid after performing a return to Title IV calculation resulting in an over award of \$350 in Pell grants. Rappahannock's management indicated the error was due to staff turnover in the financial aid office.

In accordance with 34 CFR § 668.22(a)(4)(i), after an institution determines the amount of Title IV aid earned is less than the amount an institution disburses to the student, as of the date of institution's determination that a student has withdrawn, the institution must return the difference between these amounts to Education. By not returning the correct amount, the institution is not in compliance with federal requirements and may be subject to potential adverse actions affecting Rappahannock's participation in Title IV Programs.

Rappahannock should return the amount of the Pell grant over award to Education. Additionally, Rappahannock management should review its current procedures and should implement corrective measures to ensure the return of the correct amount of unearned Title IV funds to Education.

2023-59: Perform an Evaluation of Student Information System Access Roles for College Personnel

Type: Internal Control and Compliance

Severity: Significant Deficiency

Rappahannock personnel did not properly grant student information system roles and privileges. Specifically, we found 21 of 35 (60%) employees have access to financial aid data; however, their access roles do not align with their job responsibilities. The underlying cause for improper access is Rappahannock assigning access based on a management-adopted approach, which does not fully align with the principle of least privilege. By not properly assigning access based on job responsibilities, Rappahannock is at risk for having employees with improper access levels that do not align with the principle of least privilege or allow for segregation of duties.

In accordance with 2 CFR § 200.303(e), the recipient entity must take reasonable measures to safeguard protected personally identifiable information and other information the federal awarding agency or pass-through entity designates as sensitive, or the recipient entity considers sensitive consistent with applicable federal, state, and local laws regarding privacy and responsibility over confidentiality. Further, the System's IT Security Standard states that the System must allocate privileges to users on a need-to-use basis and on an event-by-event basis, i.e., the minimum requirement for their functional role only when needed and the college should use the principle of least privilege in the assignment of security roles and responsibilities. In addition, the System's Role Reference Guide identifies access roles that are critical due to potential conflicting roles considering the concept of segregation of duties. The System's Security Standard states that "segregation of duties will be implemented, where appropriate, to reduce the risk of negligent or deliberate system misuse."

Rappahannock information security personnel and management should perform a thorough evaluation of employees with student information system access and grant system roles based upon the principle of least privilege and considering job responsibilities.

2023-60: Reconcile Federal Account

Type: Internal Control and Compliance

Severity: Significant Deficiency

Rappahannock Business Office personnel did not adequately reconcile its campus-based programs. Rappahannock staff delayed preparing and reviewing the December 2022 and March 2023 federal bank reconciliations up to one month. For the two (100%) reconciliations tested, we could not determine if management reviewed the completed monthly federal reconciliations between its automated accounting records, local federal bank account, and Education's grant management system. Rappahannock management indicated the errors were due to staff and management turnover in the Business Office.

In accordance with 34 CFR § 676.19(b)(2), institutions shall establish, maintain, and reconcile program and fiscal records at least monthly. By not properly reviewing the federal student aid programs monthly as required, Rappahannock increases its risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal noncompliance and may lead to potential adverse actions that impact participation by the institution in Title IV programs. The Rappahannock Business Office should complete reconciliations properly and promptly between its automated accounting records, local federal bank account, and Education's grant management system monthly as required.

2023-61: Properly Complete Federal Verification Prior to Disbursing Title IV Aid

Type: Internal Control and Compliance

Severity: Significant Deficiency

Rappahannock financial aid office personnel did not properly complete federal verification prior to disbursing Title IV aid. In two of nine (22%) students tested for verification, and one of 25 (4%) students tested for eligibility, Rappahannock staff did not retain adequate student aid application

documentation; therefore, we were unable to determine if staff reviewed the information prior to awarding Title IV aid.

In accordance with 34 CFR § 668.54 and 34 CFR § 668.56, an institution must require an applicant whose Free Application for Student Aid (FAFSA) information has been selected for verification to verify the information selected by the Secretary. Education's Dear Colleague Letters GEN 21-06 and GEN-22-06 outline the 2022 - 2023 Award Year FAFSA information required to be verified and the acceptable documentation by Verification Tracking Flag and Verification Tracking Group. By not performing the necessary verification, Rappahannock may be providing financial aid disbursements to students based upon inaccurate information. Rappahannock management indicated the errors were due to staff turnover in its financial aid office.

Management should provide additional training to staff for obtaining and reviewing mandatory documentation for students selected for verification. Management should implement corrective action to prevent future noncompliance and should consider implementing a quality control review to ensure that Rappahannock personnel obtain, review, and retain acceptable documentation for audit purposes.

2023-62: Promptly Return Unclaimed Aid to Department of Education

Type: Internal Control and Compliance

Severity: Significant Deficiency

Rappahannock Business Office personnel did not return unclaimed student financial aid funds to Education within the required timeframe. Specifically, we found for eight of 17 students (47%) reviewed, Rappahannock personnel did not return a total of \$3,545. Rappahannock management indicated the reasons for not returning the funds to Education were due to staff not having an accurate understanding of the requirements to return the unclaimed funds within 240 days and staff turnover in the Business Office.

In accordance with 34 CFR § 668.164(l), if an institution attempts to disburse the funds by check and the recipient does not cash the check, the institution must return the funds no later than 240 days after the date it issued that check or no later than 45 days after the rejection of an EFT. By not returning funds timely, the institution is subject to potential adverse actions that may affect its participation in Title IV aid programs.

Rappahannock should ensure staff responsible for tracking unclaimed student financial aid have a thorough understanding of applicable federal requirements. If the Business Office is unable to contact the federal aid recipient, and the check remains uncashed or the banking institution rejects the EFT, the Business Office should return the unclaimed funds to Education within the required timeframe. Additionally, the Business Office should develop policies and procedures that include how to return unclaimed student financial aid to Education timely.

2023-63: Improve Reporting to National Student Loan Data System**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**First Reported:** Fiscal Year 2017

Rappahannock student records personnel did not report accurate and timely enrollment data to the NSLDS for students that graduated, withdrew, or had an enrollment level change. Rappahannock indicated the exceptions were due to staff and management turnover in the financial aid and registrar offices. From our review of 30 students, we noted the following instances of noncompliance:

- The enrollment status was inaccurate for two students (7%);
- The effective date was inaccurate for eight students (27%);
- Rappahannock did not report enrollment status changes timely for three students (10%);
- At least one campus or program-level field deemed critical was inaccurate for eight students (27%); and
- For one student (10%), the student was reported in a program that was no longer approved at the appropriate level.

In accordance with 34 CFR § 690.83(b)(2) an institution shall submit, in accordance with deadline dates established by the Secretary, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure the reports are correct. Additionally, Education's NSLDS Enrollment Guide requires institutions to certify enrollment every 60 days at a minimum. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. Rappahannock's inaccurate and untimely enrollment data submissions to the NSLDS can affect Education's reliance on the system for monitoring purposes. Noncompliance may also impact an institution's participation in Title IV programs.

Rappahannock management should evaluate its current enrollment reporting procedures and implement corrective action to ensure that the college is reporting accurate and timely student enrollment status changes to the NSLDS. Management should also consider implementing a quality control review process to monitor the accuracy of campus and program-level batch submissions.

VIRGINIA HIGHLANDS COMMUNITY COLLEGE

2023-64: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

Type: Internal Control

Severity: Significant Deficiency

First Reported: Fiscal Year 2022

Virginia Highlands continues to lack adequate policies and procedures to ensure proper identification and reporting of leases in accordance with GASB Statement No. 87 – Leases. GASB delayed the implementation of the accounting standard by one year, providing preparers of financial statements additional time to prepare. However, as of the end of fiscal year 2024, Virginia Highlands has not implemented corrective action related to the following items communicated during the prior year's audit:

- The Business Office did not review contract documents or work with other departments within Virginia Highlands to identify the complete population of leases. As a result, Business Office staff did not perform an evaluation of leased space for a storage container and vehicles leased from the Department of General Services to determine if they met the GASB Statement No. 87 lease reporting requirements.
- The Business Office did not consistently determine asset grouping of the leases across all contracts.
- The Business Office did not report variable costs associated with Virginia Highlands' leases to the System Office for separate disclosure within the financial statements.
- The Business Office did not develop GASB Statement No. 87 policies and procedures to ensure consistent application across contracts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes proper accounting and financial reporting for leases including the need to disclose variable payments as outflows of resources in the period that the college incurs the obligation for those payments. CAPP Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the Commonwealth's lease accounting system should review the specific requirements of the statement. At implementation, Virginia Highlands did not have an accurate understanding of GASB Statement No. 87 to be able to properly plan, prepare, and implement the standard. In addition, Virginia Highlands has had turnover in key roles resulting in positions taking on additional responsibilities, which has delayed implementation of its corrective action.

Virginia Highlands should ensure the individuals evaluating, tracking, recording, and reporting leases obtain appropriate resources to ensure they have a thorough understanding of the requirements

of GASB Statement No. 87. Management should develop, implement, and update policies and procedures regularly over the leased-asset process to ensure accurate and complete reporting. These policies and procedures should include the identification of lease variable costs not already included in the calculation of the lease liability and ensure that the college reports these costs to the System Office for inclusion in the financial statements. In addition, the Business Office should perform an evaluation of Virginia Highlands' contracts to ensure the college properly captures all leases, corrects any misstated leases, and enters all lease data in the Commonwealth's lease accounting system.



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 29, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

State Board for Community Colleges
Virginia Community College System

David Doré
Chancellor, Virginia Community College System

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 aggregate discretely presented component units of the **Virginia Community College System** (System) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated May 29, 2025. Our report includes a reference to other auditors who audited the financial statements of the component units of the System as described in our report on the System's financial statements. The other auditors did not audit the financial statements of the component units of the System in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the component units of the System

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled “Internal Control and Compliance Findings and Recommendations,” we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies titled “2023-01: Improve Financial Reporting Review Process,” and “2023-02: Improve Policies and Procedures for Capital Assets,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations,” to be material weaknesses.

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. We consider the deficiencies which are included in the section titled “Internal Control and Compliance Findings and Recommendations” in finding numbers 2023-03 through 2023-64 to be significant deficiencies.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 and recommendations with the following finding numbers:

Finding Numbers: 2023-

05	06	07	09	10	13	14	15	18	20
21	23	24	30	31	32	33	34	39	40
41	42	43	44	45	46	47	48	51	52
53	54	55	57	58	59	60	61	62	63

The System's Response to Findings

We discussed this report with management at an exit conference held on July 10, 2025. Government Auditing Standards require the auditor to perform limited procedures on the System's response to the findings identified in our audit, which is included in the accompanying section titled "Virginia Community College System – Report Response." The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Status of Prior Findings

Prior audit findings and recommendations for system colleges subject to testing as part of the financial statement audit are classified as follows in [Appendix III](#):

- *Ongoing* – indicates new and/or existing findings that require management's corrective action as of fiscal year end;
- *Complete* – indicates management has taken adequate corrective action with respect to prior reported findings; and
- *Deferred* – indicates we did not perform audit work related to student financial aid findings as student financial aid was not a major program for the college for fiscal year 2023 nor was the college subject to the reaffirmation of accreditation review process.

Purpose of this Report

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

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

EMS/vks

SCHEDULE OF FINDINGS IN REPORT ORDER

Entity/Report Finding Number	Finding Title	Status of Corrective Action*	First Reported for Fiscal Year	Topic
System Office				
2023-01	Improve Financial Reporting Review Process	Ongoing	2023	Financial Accounting and Reporting
2023-02	Improve Policies and Procedures for Capital Assets	Ongoing	2021	Capital Assets
2023-03	Strengthen Controls over Capital Asset Monitoring and Reporting	Ongoing	2023	Capital Assets
2023-04	Improve Internal Controls Over Prepaid Expense Calculations	Ongoing	2023	Financial Accounting and Reporting
2023-05	Review and Update Information Technology Security Policies and Procedures	Ongoing	2023	Information Security
2023-06	Develop and Implement IT Asset Management Procedures	Ongoing	2023	Information Security
2023-07	Improve the Monitoring of Critical System Access	Ongoing	2023	Access Control
2023-08	Continue to Develop Comprehensive Policies and Procedures for Reviewing and Reacting to System and Organization Controls Reports	Ongoing	2019	Procurement/Contract Management
2023-09	Continue to Improve Procedures for Employee Separation	Ongoing	2020	Human Resources and Payroll
2023-10	Improve Database Security	Ongoing	2022	Information Security
2023-11	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets
Northern Virginia Community College				
2023-12	Improve Internal Controls over Prepaid Expenses	Ongoing	2023	Financial Accounting and Reporting
2023-13	Continue to Strengthen Interdepartmental Communications Related to Terminated Employees	Ongoing	2019	Human Resources and Payroll
2023-14	Improve the Monitoring of Critical System Access	Ongoing	2021	Access Control
2023-15	Comply with Employment Eligibility Requirements	Ongoing	2022	Human Resources and Payroll

2023-16	Properly Record Asset Acquisition Dates	Ongoing	2022	Capital Assets
2023-17	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets
Tidewater Community College				
2023-18	Strengthen Interdepartmental Communications Related to Terminated Employees	Ongoing	2018	Human Resources and Payroll
2023-19	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets
Brightpoint Community College				
2023-20	Comply with the 1,508 Hour Rule for Wage Employees	Ongoing	2023	Human Resources and Payroll
2023-21	Improve Internal Controls over Employee Termination Process	Ongoing	2023	Human Resources and Payroll
2023-22	Perform Capital Asset Inventory, Record Capital Assets Timely, and Reconcile Inventory Counts	Ongoing	2019	Capital Assets
2023-23	Perform Annual Access Review of the Commonwealth's Retirement Benefits System	Ongoing	2022	Access Control
2023-24	Comply with Employment Eligibility Requirements	Ongoing	2022	Human Resources and Payroll
2023-25	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets
Virginia Peninsula Community College				
2023-26	Improve Financial Reporting of Capital Assets	Ongoing	2023	Capital Assets
Virginia Western Community College				
2023-27	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2023	Capital Assets
2023-28	Improve Financial Reporting of Capital Assets	Ongoing	2023	Capital Assets
J. Sargeant Reynolds Community College				
2023-29	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	Ongoing	2023	Capital Assets
Blue Ridge Community College - Student Financial Aid				
2023-30	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Ongoing	2023	Information Security

2023-31	Perform an Evaluation of Student Information System Access Roles for College Personnel	Ongoing	2023	Student Financial Assistance
2023-32	Properly Return Unearned Title IV Aid to Department of Education	Ongoing	2023	Student Financial Assistance
2023-33	Promptly Disburse Credit Balances to Students	Ongoing	2023	Student Financial Assistance
2023-34	Improve Reporting to National Student Loan Data System	Ongoing	2019	Student Financial Assistance
Germanna Community College				
2023-35	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	Ongoing	2023	Capital Assets
Danville Community College				
2023-36	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	Ongoing	2023	Capital Assets
Piedmont Virginia Community College				
2023-37	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets
Eastern Shore Community College				
2023-38	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets
Eastern Shore Community College - Student Financial Aid				
2023-39	Properly Report CIP Codes in Federal Systems	Ongoing	2023	Student Financial Assistance
2023-40	Promptly Disburse Credit Balances to Students	Ongoing	2023	Student Financial Assistance
2023-41	Perform an Evaluation of Student Information System Access Roles for College Personnel	Ongoing	2023	Student Financial Assistance
2023-42	Reconcile Federal Account	Ongoing	2023	Student Financial Assistance
2023-43	Promptly Return Unearned Title IV Aid to Department of Education	Ongoing	2023	Student Financial Assistance
2023-44	Properly Perform Return of Title IV Calculations	Ongoing	2023	Student Financial Assistance
2023-45	Promptly Identify Title IV Withdrawals	Ongoing	2023	Student Financial Assistance
2023-46	Promptly Return Unclaimed Aid to Department of Education	Ongoing	2023	Student Financial Assistance

2023-47	Ensure an Accurate FISAP is Submitted to Department of Education	Ongoing	2023	Student Financial Assistance
2023-48	Improve Reporting to National Student Loan Data System	Ongoing	2017	Student Financial Assistance
Patrick & Henry Community College				
2023-49	Improve Financial Reporting of Capital Assets	Ongoing	2023	Capital Assets
New River Community College				
2023-50	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	Ongoing	2023	Capital Assets
Paul D. Camp Community College - Student Financial Aid				
2023-51	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Ongoing	2023	Information Security
2023-52	Promptly Disburse Credit Balances to Students	Ongoing	2023	Student Financial Assistance
2023-53	Promptly Return Unclaimed Aid to Department of Education	Ongoing	2023	Student Financial Assistance
2023-54	Reconcile Federal Account	Ongoing	2023	Student Financial Assistance
2023-55	Strengthen the Schedule of Expenditures of Federal Awards Process	Ongoing	2023	Student Financial Assistance
Rappahannock Community College				
2023-56	Improve Financial Reporting of Capital Assets	Ongoing	2023	Capital Assets
Rappahannock Community College - Student Financial Aid				
2023-57	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Ongoing	2023	Information Security
2023-58	Properly Return Unearned Title IV Aid to Department of Education	Ongoing	2023	Student Financial Assistance
2023-59	Perform an Evaluation of Student Information System Access Roles for College Personnel	Ongoing	2023	Student Financial Assistance
2023-60	Reconcile Federal Account	Ongoing	2023	Student Financial Assistance
2023-61	Properly Complete Federal Verification Prior to Disbursing Title IV Aid	Ongoing	2023	Student Financial Assistance
2023-62	Promptly Return Unclaimed Aid to Department of Education	Ongoing	2023	Student Financial Assistance

2023-63	Improve Reporting to National Student Loan Data System	Ongoing	2017	Student Financial Assistance
Virginia Highlands Community College				
2023-64	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	Capital Assets

*A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.

SCHEDULE OF FINDINGS BY TOPIC

Entity/Report Finding Number	Finding Title	Entity
Access Control		
2023-07	Improve the Monitoring of Critical System Access	System Office
2023-14	Improve the Monitoring of Critical System Access	Northern Virginia Community College
2023-23	Perform Annual Access Review of the Commonwealth's Retirement Benefits System	Brightpoint Community College
Capital Assets		
2023-02	Improve Policies and Procedures for Capital Assets	System Office
2023-03	Strengthen Controls over Capital Asset Monitoring and Reporting	System Office
2023-11	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	System Office
2023-16	Properly Record Asset Acquisition Dates	Northern Virginia Community College
2023-17	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Northern Virginia Community College
2023-19	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Tidewater Community College
2023-22	Perform Capital Asset Inventory, Record Capital Assets Timely, and Reconcile Inventory Counts	Brightpoint Community College
2023-25	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Brightpoint Community College
2023-26	Improve Financial Reporting of Capital Assets	Virginia Peninsula Community College
2023-27	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Virginia Western Community College
2023-28	Improve Financial Reporting of Capital Assets	Virginia Western Community College
2023-29	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	J. Sargeant Reynolds Community College
2023-35	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	Germanna Community College
2023-36	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	Danville Community College

2023-37	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Piedmont Virginia Community College
2023-38	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Eastern Shore Community College
2023-49	Improve Financial Reporting of Capital Assets	Patrick & Henry Community College
2023-50	Improve Financial Reporting of Capital Assets and Right-to-use Intangible Assets	New River Community College
2023-56	Improve Financial Reporting of Capital Assets	Rappahannock Community College
2023-64	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Virginia Highlands Community College
Financial Accounting and Reporting		
2023-01	Improve Financial Reporting Review Process	System Office
2023-04	Improve Controls Over Prepaid Expense Calculations	System Office
2023-12	Improve Internal Controls over Prepaid Expenses	Northern Virginia Community College
Human Resources and Payroll		
2023-09	Continue to Improve Procedures for Employee Separation	System Office
2023-13	Continue to Strengthen Interdepartmental Communications Related to Terminated Employees	Northern Virginia Community College
2023-15	Comply with Employment Eligibility Requirements	Northern Virginia Community College
2023-18	Strengthen Interdepartmental Communications Related to Terminated Employees	Tidewater Community College
2023-20	Comply with the 1,508 Hour Rule for Wage Employees	Brightpoint Community College
2023-21	Improve Internal Controls over Employee Termination Process	Brightpoint Community College
2023-24	Comply with Employment Eligibility Requirements	Brightpoint Community College
Information Security		
2023-05	Review and Update Information Technology Security Policies and Procedures	System Office
2023-06	Develop and Implement IT Asset Management Procedures	System Office
2023-10	Improve Database Security	System Office
2023-30	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Blue Ridge Community College
2023-51	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Paul D. Camp Community College
2023-57	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Rappahannock Community College

Procurement/Contract Management		
2023-08	Continue to Develop Comprehensive Policies and Procedures for Reviewing and Reacting to System and Organization Controls Reports	System Office
Student Financial Assistance		
2023-31	Perform an Evaluation of Student Information System Access Roles for College Personnel	Blue Ridge Community College
2023-32	Properly Return Unearned Title IV Aid to Department of Education	Blue Ridge Community College
2023-33	Promptly Disburse Credit Balances to Students	Blue Ridge Community College
2023-34	Improve Reporting to National Student Loan Data System	Blue Ridge Community College
2023-39	Properly Report CIP Codes in Federal Systems	Eastern Shore Community College
2023-40	Promptly Disburse Credit Balances to Students	Eastern Shore Community College
2023-41	Perform an Evaluation of Student Information System Access Roles for College Personnel	Eastern Shore Community College
2023-42	Reconcile Federal Account	Eastern Shore Community College
2023-43	Promptly Return Unearned Title IV Aid to Department of Education	Eastern Shore Community College
2023-44	Properly Perform Return of Title IV Calculations	Eastern Shore Community College
2023-45	Promptly Identify Title IV Withdrawals	Eastern Shore Community College
2023-46	Promptly Return Unclaimed Aid to Department of Education	Eastern Shore Community College
2023-47	Ensure an Accurate FISAP is Submitted to Department of Education	Eastern Shore Community College
2023-48	Improve Reporting to National Student Loan Data System	Eastern Shore Community College
2023-52	Promptly Disburse Credit Balances to Students	Paul D. Camp Community College
2023-53	Promptly Return Unclaimed Aid to Department of Education	Paul D. Camp Community College
2023-54	Reconcile Federal Account	Paul D. Camp Community College
2023-55	Strengthen the Schedule of Expenditures of Federal Awards Process	Paul D. Camp Community College
2023-58	Properly Return Unearned Title IV Aid to Department of Education	Rappahannock Community College
2023-59	Perform an Evaluation of Student Information System Access Roles for College Personnel	Rappahannock Community College
2023-60	Reconcile Federal Account	Rappahannock Community College
2023-61	Properly Complete Federal Verification Prior to Disbursing Title IV Aid	Rappahannock Community College
2023-62	Promptly Return Unclaimed Aid to Department of Education	Rappahannock Community College
2023-63	Improve Reporting to National Student Loan Data System	Rappahannock Community College

STATUS OF PRIOR FINDINGS

(Alphabetical Order by Entity)

Beginning with fiscal year 2023, we updated our audit of the System's financial statements to be more reflective of risk and coverage over material financial statement line items and related amounts disclosed in the notes to the financial statements. To that end, we have instituted an additional area of review using an Internal Control Questionnaire (ICQ) process for System colleges with less risk and financial activity. Additionally, prior findings for colleges subject to the ICQ process, except those related to student financial aid, are not included in this schedule as we will conduct follow-up procedures on those findings as part of the ICQ process and will issue a separate report.

Entity/Report Finding Number	Finding Title	Status of Corrective Action*	First Reported for Fiscal Year	Current Year Report ID Number
Blue Ridge Community College – Student Financial Aid				
2019-20	Improve Enrollment Reporting Process	Ongoing	2019	2023-34
Brightpoint Community College				
2022-17	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	2023-25
2022-18	Perform Capital Asset Inventory, Record Capital Assets Timely, and Reconcile Inventory Counts	Ongoing	2019	2023-22
2022-19	Perform Annual Access Review of the Commonwealth's Retirement Benefits System	Ongoing	2022	2023-23
2022-20	Comply with Employment Eligibility Requirements	Ongoing	2022	2023-24
Brightpoint Community College – Student Financial Aid				
2021-40	Strengthen the Schedule of Expenditures of Federal Awards Process	Deferred	2021	N/A
2021-41	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2021	N/A
2021-42	Improve Reporting to the Common Origination and Disbursement System	Deferred	2021	N/A
2021-43	Promptly Return Unclaimed Aid to Department of Education	Deferred	2021	N/A
2021-44	Properly Perform Return of Title IV Calculations	Deferred	2021	N/A
2021-45	Improve Federal Direct Loan Reconciliations	Deferred	2021	N/A

2021-46	Perform an Evaluation of Student Information System Access Roles for Financial Aid Office Employees	Deferred	2021	N/A
2021-47	Perform Risk Assessment as Required by the Gramm-Leach-Bliley Act	Deferred	2021	N/A
Central Virginia Community College – Student Financial Aid				
2022-67	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Deferred	2022	N/A
2022-68	Promptly Disburse Credit Balances to Students	Deferred	2022	N/A
2022-69	Promptly Return Unclaimed Aid to Department of Education	Deferred	2018	N/A
2022-70	Perform an Evaluation of Student Information System Access Roles for Financial Aid Office Employees	Deferred	2022	N/A
2022-71	Properly Perform Return of Title IV Calculations	Deferred	2022	N/A
2022-72	Improve Federal Direct Loan Reconciliations	Deferred	2022	N/A
2022-73	Improve Notification Process for Federal Awards to Students	Deferred	2022	N/A
2022-74	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
2022-75	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2022	N/A
Danville Community College – Student Financial Aid				
2020-41	Reconcile Federal Aid Programs Timely	Deferred	2020	N/A
2020-42	Promptly Disburse Credit Balances to Students	Deferred	2020	N/A
2020-43	Properly Manage Return of Title IV Funds	Deferred	2020	N/A
2020-44	Promptly Return Unclaimed Aid to Department of Education	Deferred	2020	N/A
2020-45	Report Student Status Enrollment Changes Accurately and Timely to National Student Loan Data System	Deferred	2020	N/A
2020-46	Properly Complete Verification Prior to Disbursing Federal Financial Aid	Deferred	2020	N/A
2020-47	Improve Direct Loan Quality Assurance Program	Deferred	2020	N/A
2020-48	Improve Notification Process for Federal Direct Loan Awards to Students	Deferred	2020	N/A
2020-49	Improve Reporting to the Common Origination and Disbursement System	Deferred	2020	N/A
2020-50	Ensure Student System Roles are Assigned Properly	Deferred	2020	N/A
2020-51	Perform Risk Assessment as Required by the Gramm-Leach-Bliley Act	Deferred	2020	N/A
Eastern Shore Community College				
2022-42	Improve Internal Controls over Financial Reporting of Leases under GASB Statements No. 87	Ongoing	2022	2023-38

Eastern Shore Community College – Student Financial Aid				
2017-53	Improve Reporting to National Student Loan Data System	Ongoing	2017	2023-48
Germanna Community College				
2022-34	Improve Internal Controls over Financial Reporting of Leases under GASB Statements No. 87	Complete	2022	N/A
Germanna Community College – Student Financial Aid				
2022-36	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Deferred	2022	N/A
2022-37	Perform an Evaluation of Student Information System Access Roles for College Personnel	Deferred	2022	N/A
J. Sargeant Reynolds Community College – Student Financial Aid				
2018-77	Improve Direct Loan Reconciliations	Deferred	2018	N/A
2018-78	Resolve Federal Department of Education Findings	Deferred	2018	N/A
Laurel Ridge Community College – Student Financial Aid				
2022-21	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Deferred	2022	N/A
2022-22	Perform an Evaluation of Student Information System Access Roles for College Personnel	Deferred	2022	N/A
2022-23	Strengthen the Schedule of Expenditures of Federal Awards Review Process	Deferred	2022	N/A
2022-24	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
2022-25	Improve Return of Title IV Calculation Processes	Deferred	2022	N/A
2022-26	Improve Federal Direct Loan Reconciliations	Deferred	2022	N/A
2022-27	Improve Notification Process for Federal Awards to Students	Deferred	2022	N/A
Mountain Gateway Community College – Student Financial Aid				
2022-61	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Deferred	2022	N/A
2022-62	Perform an Evaluation of Student Information System Access Roles for Financial Aid Office Employees	Deferred	2022	N/A
2022-63	Promptly Identify Title IV Withdrawals	Deferred	2022	N/A
2022-64	Provide Timely Notification of Disbursements to Students	Deferred	2022	N/A

2022-65	Improve Reporting to National Student Loan Data System	Deferred	2018	N/A
2022-66	Properly Complete Verification Prior to Disbursing Title IV Aid	Deferred	2022	N/A
New River Community College – Student Financial Aid				
2022-49	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Deferred	2022	N/A
2022-50	Perform an Evaluation of Student Information System Access Roles for College Personnel	Deferred	2022	N/A
2022-51	Promptly Return Unclaimed Aid to Department of Education	Deferred	2022	N/A
2022-52	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
2022-53	Strengthen the Schedule of Expenditures of Federal Awards Review Process	Deferred	2022	N/A
Northern Virginia Community College				
2022-09	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	2023-17
2022-10	Properly Record Asset Acquisition Dates	Ongoing	2022	2023-16
2022-11	Improve the Monitoring of Critical System Access	Ongoing	2021	2023-14
2022-12	Continue to Strengthen Interdepartmental Communications Related to Terminated Employees	Ongoing	2019	2023-13
2022-13	Comply with Employment Eligibility Requirements	Ongoing	2022	2023-15
Northern Virginia Community College – Student Financial Aid				
2021-11	Reconcile Federal Assistance Programs	Deferred	2021	N/A
2021-13	Improve Compliance over Enrollment Reporting	Deferred	2021	N/A
Patrick & Henry Community College – Student Financial Aid				
2022-45	Improve Documentation When Handling Federal Funds	Deferred	2022	N/A
2022-46	Improve Compliance over Title IV Calculations and Returns	Deferred	2022	N/A
2022-47	Promptly Return Unclaimed Aid to Department of Education	Deferred	2022	N/A
2022-48	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
Paul D. Camp Community College – Student Financial Aid				
2018-79	Improve Reporting to National Student Loan Data System	Complete	2018	N/A

Piedmont Virginia Community College				
2022-54	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	2023-37
Piedmont Virginia Community College – Student Financial Aid				
2018-32	Return Unearned Title IV Funds Timely	Deferred	2018	N/A
2018-33	Perform Accurate Return of Title IV Calculations	Deferred	2018	N/A
2018-34	Reconcile Federal Aid Programs Timely	Deferred	2018	N/A
2018-35	Improve Reporting to National Student Loan Data System	Deferred	2018	N/A
Rappahannock Community College – Student Financial Aid				
2017-50	Improve Reporting to National Student Loan Data System	Ongoing	2017	2023-63
2017-51	Properly Perform Title IV Calculations	Complete	2017	N/A
2017-52	Identify and Address Reconciling Items Timely	Complete	2017	N/A
Shared Service Center				
2022-08	Perform Annual Access Review of the Commonwealth's Retirement Benefits System	Complete	2022	N/A
Southside Virginia Community College – Student Financial Aid				
2022-38	Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act	Deferred	2022	N/A
2022-39	Improve Return of Title IV Calculation Processes	Deferred	2022	N/A
2022-40	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
2022-41	Perform an Evaluation of Student Information System Access Roles for College Personnel	Deferred	2022	N/A
Southwest Virginia Community College – Student Financial Aid				
2020-52	Reconcile Federal Funds Timely	Deferred	2020	N/A
2020-53	Properly Manage Return of Title IV Funds	Deferred	2020	N/A
2020-54	Promptly Return Unclaimed Aid to Department of Education	Deferred	2020	N/A
2020-55	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2020	N/A
2020-56	Ensure Student Status Changes are Reported Accurately and Timely	Deferred	2020	N/A
2020-57	Ensure Student System Roles as Assigned Properly	Deferred	2020	N/A
2020-58	Properly Complete Verification Prior to Disbursing Federal Financial Aid	Deferred	2020	N/A
2020-59	Improve Reporting to the Common Origination and Disbursement System	Deferred	2020	N/A

2020-60	Perform Risk Assessment as Required by the Gramm-Leach-Bliley Act	Deferred	2020	N/A
System Office				
2020-01	Monitor Statewide WIOA Grant Program According to Policy	Complete	2020	N/A
2020-08	Perform Certifications for Commonwealth's Retirement Benefits System	Complete	2020	N/A
2020-09	Improve Controls Over Access to Commonwealth's Human Resource System	Complete	2020	N/A
2020-10	Continue to Improve Procedures for Employee Separation	Ongoing	2020	2023-09
2022-01	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	2023-11
2022-02	Improve Database Security	Ongoing	2022	2023-10
2022-03	Improve Policies and Procedures for Capital Assets	Ongoing	2021	2023-02
2022-04	Properly Report Current and Noncurrent Prepaid Expenses	Complete	2022	N/A
2022-05	Continue to Develop Comprehensive Policies and Procedures for Reviewing and Reacting to System and Organization Controls Reports	Ongoing	2019	2023-08
2022-06	Ensure Consistency in the Handling and Financial Reporting of Dual Enrollment Tuition	Complete	2021	N/A
2022-07	Address Inconsistencies in Employee Personnel Records	Complete	2020	N/A
Tidewater Community College				
2022-14	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	2023-19
2022-15	Strengthen Interdepartmental Communications Related to Terminated Employees	Ongoing	2018	2023-18
2022-16	Continue to Strengthen Internal Controls Over Physical Inventory	Complete	2020	N/A
Tidewater Community College – Student Financial Aid				
2021-17	Perform Risk Assessment as Required by the Gramm-Leach-Bliley Act	Deferred	2020	N/A
2021-18	Report Student Enrollment Changes Accurately and Timely to National Student Loan Data System	Deferred	2018	N/A
Virginia Highlands Community College				
2022-76	Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87	Ongoing	2022	2023-64

Virginia Highlands Community College – Student Financial Aid				
2022-80	Perform an Evaluation of Student Information System Access Roles for College Personnel	Deferred	2022	N/A
2022-81	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
2022-82	Properly Reconcile Federal Bank Accounts	Deferred	2022	N/A
2022-83	Promptly Return Unclaimed Aid to Department of Education	Deferred	2022	N/A
2022-84	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2022	N/A
Virginia Peninsula Community College – Student Financial Aid				
2020-29	Reconcile Federal Aid Programs Timely	Deferred	2020	N/A
2020-30	Promptly Return Unclaimed Aid to Department of Education	Deferred	2020	N/A
2020-31	Report Student Status Changes Accurately and Timely to National Student Loan Data System	Deferred	2020	N/A
2020-32	Improve Notification Process for Federal Direct Loan Awards to Students	Deferred	2020	N/A
2020-33	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2020	N/A
2020-34	Properly Complete Exit Counseling for Direct Loan Borrowers	Deferred	2020	N/A
2020-35	Ensure Student Information System Roles are Assigned Properly	Deferred	2020	N/A
2020-36	Improve Direct Loan Quality Assurance Program	Deferred	2020	N/A
2020-37	Perform Risk Assessment as Required by the Gramm-Leach-Bliley Act	Deferred	2020	N/A
Virginia Western Community College – Student Financial Aid				
2022-28	Reconcile Federal Fund Accounts	Deferred	2022	N/A
2022-29	Improve Federal Direct Loan Reconciliations	Deferred	2022	N/A
2022-30	Properly Reconcile Federal Bank Accounts	Deferred	2022	N/A
2022-31	Perform an Evaluation of Student Information System Access Roles for Financial Aid Office Employees	Deferred	2022	N/A
2022-32	Improve Reporting to National Student Loan Data System	Deferred	2022	N/A
2022-33	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2022	N/A
Wytheville Community College – Student Financial Aid				
2020-64	Reconcile Federal Funds Timely	Deferred	2020	N/A
2020-65	Perform Federal Direct Loan Reconciliations Timely	Deferred	2020	N/A
2020-66	Promptly Return Unclaimed Aid to Department of Education	Deferred	2020	N/A

2020-67	Ensure Student Status Changes are Reported Accurately and Timely	Deferred	2020	N/A
2020-68	Ensure an Accurate FISAP is Submitted to Department of Education	Deferred	2020	N/A
2020-69	Enhance Notification for Borrowers that have not Completed Exit Counseling	Deferred	2020	N/A
2020-70	Ensure Student System Roles are Assigned Properly	Deferred	2020	N/A
2020-71	Improve Direct Loan Quality Assurance Program	Deferred	2020	N/A
2020-72	Improve Federal Direct Loan Borrower Notification Process	Deferred	2020	N/A
2020-73	Perform Risk Assessment as Required by the Gramm-Leach-Bliley Act	Deferred	2020	N/A

* A status of **Complete** indicates management has taken adequate corrective action. **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end. **Deferred** indicates that we will follow-up on management's assertion that corrective action has been taken in a future report.

ABBREVIATIONS

Abbreviations/Acronyms	Description
Accounting System	Virginia Community College System's Accounting Information System
Accounts	Department of Accounts
Appropriation Act	Chapter 2, 2022 Virginia Acts of Assembly
Brightpoint	Brightpoint Community College
Blue Ridge	Blue Ridge Community College
Business Office	Employees collectively responsible for: financial reporting, payroll, procurement, capital assets, human resources, and/or student financial assistance
Camp	Paul D. Camp Community College
CAPP	Commonwealth Accounting Policies and Procedures
CFR	United States Code of Federal Regulations
CIP	Classification of Instructional Program
CIS Benchmark	Center for Internet Security
COD System	Common Origination and Disbursement System
Colleges	Community colleges
CUECs	Complementary user entity controls
Danville	Danville Community College
DHRM	Department of Human Resource Management
Eastern Shore	Eastern Shore Community College
Education	United States Department of Education
EFT	Electronic Funds Transfer
FAFSA	Free Application for Federal Student Aid
FISAP	Fiscal Operations Report and Application to Participate
Fiscal Services	System Office's Fiscal Services Division
FOIAE	Freedom of Information Act Exempt
Form I-9	Employment Eligibility Verification Form I-9
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
Germanna	Germanna Community College
GLBA	Gramm-Leach-Bliley Act
Homeland Security	United States Department of Homeland Security
HR	Human Resource

Abbreviations/Acronyms	Description
Human Resources	Human resources department for each individual college
ICQ	Internal Control Questionnaire
IEC	International Electrotechnical Commission
ISO Standard	International Organization for Standardization and International Electrotechnical Commission Standard ISO 27002:2022
IT	Information Technology
New River	New River Community College
NIST	National Institute of Standards and Technology
Northern Virginia	Northern Virginia Community College
NSLDS	National Student Loan Data System
Patrick & Henry	Patrick & Henry Community College
Piedmont	Piedmont Virginia Community College
Rappahannock	Rappahannock Community College
Retirement Benefits System	Commonwealth's Retirement Benefits System
Retirement System	Virginia Retirement System
Reynolds	J. Sargent Reynolds Community College
SBITA	Subscription-Based Information Technology Arrangements
Secretary	Secretary of Education
SEFA	Schedule of Expenditures of Federal Awards
Shared Services	Virginia Community College System Shared Services Center
SOC	System and Organization Controls
System	Virginia Community College System
System Office	Virginia Community College System Office
System's Security Standard	System's Information Technology Security Standard, based on ISO 27002:2013
Tidewater	Tidewater Community College
Title IV	Title IV of the Higher Education Act of 1965
TLS	Transport Layer Security
Virginia Highlands	Virginia Highlands Community College
Virginia Peninsula	Virginia Peninsula Community College
Virginia Western	Virginia Western Community College



July 10, 2025

Ms. Staci Henshaw
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Ms. Henshaw:

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, 2023.

We confirm that we have received the findings and recommendations and have prepared a corrective action plan that will be submitted to the Department of Accounts.

If you have any questions, please contact Dr. Craig Herndon, VCCS Executive Vice and Chief of Staff, at (804) 819-4782.

Sincerely,

A handwritten signature in black ink that reads "David A. Dore".

David Dore'
Chancellor

Enclosure

cc: Dr. Craig Herndon