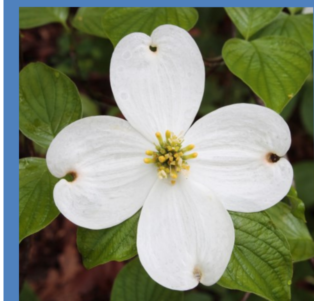



# GEORGE MASON UNIVERSITY

## REPORT ON AUDIT

## FOR THE YEAR ENDED

## JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350

## AUDIT SUMMARY

We have audited the basic financial statements of George Mason University (George Mason) as of and for the year ended June 30, 2015, and issued our report thereon, dated May 4, 2015. Our report, included in George Mason's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at George Mason's website at www.gmu.edu.

Our audit of George Mason for the year ended June 30, 2015, found:

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

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

# – T A B L E  OF  C O N T E N T S –

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

**Improve Library Books Valuation Process**

*Internal Control Weakness*

George Mason is not efficiently and accurately executing its methodology for reporting library book additions and deletions, which could lead to misstatements of financial statements and inefficient use of employee time and resources. George Mason uses a methodology which requires library book fixed assets analysts (library analysts) to use published average costs instead of historical cost for library books purchased during the year and to provide that information to financial reporting for inclusion in the financial statements. To facilitate this process, George Mason has a desk procedure that is to be updated annually indicating that the value of additions and deletions should be based on a published average price for each category of library book. After review of the process, the following issues were noted:

- The desk procedure does not provide detailed guidance on the proper publications to use for all categories;
- Some published average prices used in the estimate are from prior years, dating back as far as 2001 for non-print media (CDs, audios, and videos). Library analysts identified this issue in the desk procedures;
- Library analysts were unable to provide support for the estimated value of microfilm and microfiche library book categories;
- Library analysts improperly included online subscriptions in library book additions; and
- Library analysts did not properly categorize and value music scores, print journals, and book on discs as gifts.

The deficiencies found are primarily a result of the challenges involved in a decentralized process. The valuation process for library books requires communication between financial reporting and library analysts. George Mason has also experienced extensive turnover in its library analysts over the past several years. In light of these circumstances, financial reporting did not provide sufficient guidance and training to library analysts to ensure an appropriate level of understanding for performing the library book fixed assets analysis.

George Mason should reevaluate its valuation methodology for additions and deletions of library books and consider using actual historical cost, rather than published average cost. Using actual historical cost information is a more accurate representation, is less time consuming than the current valuation process, and reduces the challenges involved in a decentralized process. However, if George Mason continues to employ the current process, financial reporting and library analysts should improve communication to ensure library analysts receive sufficient guidance and training. Financial reporting and library analysts should also work together to ensure desk procedures and other resources are current.

**<u>Develop and Incorporate Information Transfer Policies, Procedures, and Agreements into the University's Information Security Program</u>**

*Internal Control Weakness and Compliance Finding*

George Mason does not have information transfer policies or procedures that require the use of information transfer agreements with external parties in order to protect highly sensitive and restricted data. George Mason has the Architecture Standards Committee that reviews new procurements to determine if highly sensitive or restricted data will be stored, transmitted, or collected and evaluates how the data will be secured. George Mason currently exchanges data with 33 different external parties; and even though the university evaluated if highly sensitive or restricted data will be transmitted, there are no information transfer agreements with the external parties. Highly sensitive and restricted data such as Personally Identifiable Information and Personal Health Information inherently carry more risk if stolen or compromised and; therefore, require additional information security protections, including encryption. While George Mason does use standard terms and conditions in its contracts to address the external party's responsibility to safeguard exchanged data sets, the current terms and conditions do not include specific requirements for securing highly sensitive and protected data.

George Mason's information technology security program is based upon best practices described and recommended in the International Organization for Standardization and the International Electrotechnical Commission ISO/IEC 27002:2013 (ISO 27002), and has been tailored to the specific needs of the University. ISO 27002 Section 13.1.2 Information Transfer Policies and Procedures requires that formal transfer policies, procedures and controls should be in place to adequately protect the transfer of information through the use of all types of communication facilities. Additionally, ISO 27002 Section 13.2.2 Agreements on Information Transfer requires that agreements address the secure transfer of business information between the organization and external parties. George Mason's Data Stewardship Policy, Section III Encryption, requires data custodians to employ encryption as a means of protecting highly sensitive data.

George Mason not having a formal procedure or standard requiring specific information security controls in information transfer agreements increases the risk that external parties will not meet minimum technical standards, such as encryption, to protect exchanged highly sensitive and restricted data. Also, by not having the minimum technical security and data protection requirements included in its signed transfer agreements, George Mason increases the risk of not being able to hold its external partners accountable if a data breach were to occur.

George Mason should develop information transfer policies, procedures, and agreements and formally adopt them into its information security program. George Mason should use the implementation guidance in the ISO 27002 to develop the minimum technical requirements and include them in all information transfer agreements where highly sensitive and protected data is exchanged. Also, as contracts come up for renewal, George Mason should incorporate the minimum technical requirements in the instances where highly sensitive and restricted data is transferred. By requiring minimum technical controls, George Mason will ensure consistency in all transfer agreements and help to ensure the confidentiality, integrity, and availability of its highly sensitive and protected data.

**Perform and Document Monthly Reconciliations of Direct Loans**

*Internal Control Weakness and Compliance Finding – Federal*

The Student Financial Aid Office of George Mason could not provide documentation of the reconciliation of their School Account Statement (SAS) for one out of three months selected for testing. George Mason's Financial Aid Office personnel were unable to provide sufficient documentation showing reconciliation of their internal records to Direct Loan Servicing System upon receipt of the SAS from the Common Origination and Disbursement (COD) system management oversight.

In accordance with 34 CFR §685.300(b) and 34 CFR §685.102(b), institutions must report all direct loan disbursements and submit required records to the Direct Loan Servicing System via the COD within 15 days of disbursement. Each month, the COD provides the college with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail records.

The Student Financial Aid Office should reconcile its financial records with those of the federal government monthly to help ensure the accuracy and completeness of both sets of records, and retain evidence of reconciliation to provide an adequate audit trail. In addition, George Mason should document and implement a procedure for the documentation and storage of SAS reconciliations.

**Improve Notification of Awards to Students**

*Internal Control Weakness and Compliance Finding – Federal*

The Student Financial Aid Office of George Mason did not properly notify students that received a loan disbursement on May 8, 2015. Our audit initially identified four students that had not been notified. However, upon further review, we determined that an additional 273 students did not receive the required notification. The students were not notified due to a management oversight in the manual notification process. George Mason management is currently working on making notifications to students an automated process.

Code of Federal Regulations, Title 34 CFR 668.165 (2)(ii) states that an institution must notify the student or parent of "the student's right or parent's right to cancel all or a portion of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary." Furthermore, 34 CFR 668.165 (3)(i) states that the institution must provide the notice "no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution, if the institution obtains affirmative confirmation from the student."

The improper notification of student disbursements in accordance with Federal Regulations may result in adverse action taken against George Mason as outlined in 34 CFR 668 Subpart G. George Mason should review its current processes to ensure compliance with notification requirements.

Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 4, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of George Mason University (George Mason) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise George Mason's basic financial statements and have issued our report thereon dated May 4, 2016. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of George Mason, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting entitled "Improve Library Books Valuation Process," "Develop and Incorporate Information Transfer Policies, Procedures, and Agreements into the University's Information Security Program," "Perform and Document Monthly Reconciliations of Direct Loans," and "Improve Notification of Awards to Students," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether George Mason's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings and Recommendations," in the findings entitled "Develop and Incorporate Information Transfer Policies, Procedures, and Agreements into the University's Information Security Program," "Perform and Document Monthly Reconciliations of Direct Loans," and "Improve Notification of Awards to Students."

**George Mason's Response to Findings**

We discussed this report with management at an exit conference held on May 4, 2016. George Mason's response to the findings identified in our audit is described in the accompanying section titled "University Response." George Mason's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Status of Prior Findings**

George Mason has taken adequate corrective action with respect to audit findings reported in the prior year.

**Purpose of this Report**

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

AUDITOR OF PUBLIC ACCOUNTS

ZLB/alh

GEORGE MASON UNIVERSITY

Senior Vice President

4400 University Drive, MS 3B2, Fairfax, Virginia 22030
Phone: 703-993-8750; Fax: 703-993-8772

May 16, 2016

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

Dear Ms. Mavredes:

We have reviewed the audit findings and recommendations resulting from the fiscal year 2015 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference.

George Mason University acknowledges and concurs with the audit findings. The following contains the APA findings and management's responses to the concerns and issues raised.

**APA Finding- Improve Library Books Valuation Process**

George Mason is not efficiently and accurately executing its methodology for reporting library book additions and deletions, which could lead to misstatements of financial statements and inefficient use of employee time and resources. George Mason uses a methodology which requires library book fixed assets analysts (library analysts) to use published average costs instead of historical cost for library books purchased during the year and to provide that information to financial reporting for inclusion in the financial statements. To facilitate this process, George Mason has a desk procedure that is to be updated annually indicating that the value of additions and deletions should be based on a published average price for each category of library book. After review of the process, the following issues were noted:

- The desk procedure does not provide detailed guidance on the proper publications to use for all categories;
- Some published average prices used in the estimate are from prior years, dating back as far as 2001 for non-print media (CDs, audios, and videos). Library analysts identified this issue in the desk procedures;
- Library analysts were unable to provide support for the estimated value of microfilm and microfiche library book categories;
- Library analysts improperly included online subscriptions in library book additions; and
- Library analysts did not properly categorize and value music scores, print journals, and book on discs gifts.

The deficiencies found are primarily a result of the challenges involved in a decentralized process. The valuation process for library books requires communication between financial reporting and library analysts. George Mason has also experienced extensive turnover in its library analysts over the past several years. In light of these circumstances, financial reporting did not provide sufficient guidance and training to library analysts to ensure an appropriate level of understanding for performing the library book fixed assets analysis.

George Mason should reevaluate its valuation methodology for additions and deletions of library books and consider using actual historical cost, rather than published average cost. Using actual historical cost information is a more accurate representation, is less time consuming than the current valuation process, and reduces the challenges involved in a decentralized process. However, if George Mason continues to employ the current process, financial reporting and library analysts should improve communication to ensure library analysts receive sufficient guidance and training. Financial reporting and library analysts should also work together to ensure desk procedures and other resources are current.

**Management's Response**

Thank you for providing the comments set forth above. We are always interested in process improvements and, as you have pointed out, the method we use to value library materials additions and disposals can be improved.

The University's library analysts have an in depth knowledge of the categories of library materials that they acquire and that they dispose of. The essence of the process we use is neither complex nor inefficient. The library analysts use their in depth knowledge of the library materials purchases to consult published sources of library materials average costs for a limited number of library materials categories. The number of items purchased in each category is then multiplied by the published average cost for that category. Using published average costs for a limited number of categories is more efficient than tracking the annual purchase of more than sixty thousand separate small value items to hundreds of invoices. In the past the published sources of library materials average costs were more readily available than they are now, which has become a problem for our current process.

The University's library materials valuation process was initiated as a result of guidance provided by the APA about 14 years ago, around the time of the GASB 34/35 implementation. APA has reviewed the process and the calculations every year since it was implemented and did not question it until now. We believed APA expected us to use this methodology. As you know, there is very little guidance for this process in GASB literature.

For FY 16 and subsequent fiscal years, we will change our valuation methodology to use actual, historical cost rather than published average costs. General Accounting will still need to rely on the library analysts' in depth knowledge of the library materials they acquire and dispose of, so the challenges involved in a decentralized process won't be completely eliminated.

**APA Finding- Develop and Incorporate Information Transfer Policies, Procedures, and Agreements into the University's Information Security Program**

George Mason does not have information transfer policies or procedures that require the use of information transfer agreements with external parties in order to protect highly sensitive and restricted data. George Mason has the Architecture Standards Committee that reviews new procurements to determine if highly sensitive or restricted data will be stored, transmitted, or collected and evaluates how the data will be secured. George Mason currently exchanges data with 33 different external parties and even though the university evaluated if highly sensitive or restricted data will be transmitted there are no information transfer agreements with the external parties. Highly sensitive and restricted data such as Personally Identifiable Information and Personal Health Information inherently carry more risk if stolen or compromised, and therefore require additional information security protections, including encryption. While George Mason does use standard terms and conditions in its contracts to address the external party's responsibility to safeguard exchanged data sets, the current terms and conditions do not include specific requirements for securing highly sensitive and protected data.

George Mason's information technology security program is based upon best practices described and recommended in the International Organization for Standardization and the International Electrotechnical Commission ISO/IEC 27002:2013 (ISO 27002), and has been tailored to the specific needs of the University. ISO 27002 Section 13.1.2 Information Transfer Policies and Procedures, requires that formal transfer policies, procedures and controls should be in place to adequately protect the transfer of information through the use of all types of communication facilities. Additionally, ISO 27002 Section 13.2.2 Agreements on Information Transfer, requires that agreements address the secure transfer of business information between the organization and external parties. George Mason's Data Stewardship Policy, Section III Encryption, requires data custodians to employ encryption as a means of protecting highly sensitive data.

George Mason not having a formal procedure or standard requiring specific information security controls in information transfer agreements increases the risk that external parties will not meet minimum technical standards, such as encryption, to protect exchanged highly sensitive and restricted data. Also, by not having the minimum technical security and data protection requirements included in its signed transfer agreements, George Mason increases the risk of not being able to hold its external partners accountable if a data breach were to occur.

George Mason should develop information transfer policies, procedures, and agreements and formally adopt them into its information security program. George Mason should use the implementation guidance in the ISO 27002 to develop the minimum technical requirements and include them in all information transfer agreements where highly sensitive and protected data is exchanged. Also, as contracts come up for renewal, George Mason should incorporate the minimum technical requirements in the instances where highly sensitive and restricted data is transferred. By requiring minimum technical controls, George Mason will ensure consistency in all transfer agreements and help to ensure the confidentiality, integrity, and availability of its highly sensitive and protected data.

**Management's Response**

The University acknowledges the importance of information transfer policies, procedures, and agreements and is continuing to evolve its information security program in order to be compliant with ISO 27002. George Mason's Information Technology Security Office (ITSO) has created an information security addendum to address any existing gaps. This addendum has already been included in several recent contracts; ITSO will work with Mason's Purchasing Office to develop and institute formal policy and procedures to ensure that it is consistently incorporated in future contracts and contract renewals. It should be noted that of the 33 contracts referenced in the above text, some are mandated interfaces with Federal government entities so no contract is involved.

**APA Finding- Perform and Document Monthly Reconciliations of Direct Loans**

The Student Financial Aid Office of George Mason could not provide documentation of the reconciliation of their School Account Statement (SAS) for one out of three months selected for testing. George Mason's Financial Aid Office personnel were unable to provide sufficient documentation showing reconciliation of their internal records to Direct Loan Servicing System (DLSS) upon receipt of the SAS from the Common Origination and Disbursement (COD) system management oversight.

In accordance with 34 CFR §685.300(b) and 34 CFR §685.102(b), institutions must report all direct loan disbursements and submit required records to the Direct Loan Servicing System via the COD within 15 days of disbursement. Each month, the COD provides the college with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and Loan Detail records. The Financial Aid office should reconcile its financial records with those of the Federal Government monthly to help ensure the accuracy and completeness of both sets of records, and retain evidence of reconciliation to provide an adequate audit trail.

George Mason should document and implement a procedure for the documentation and storage of SAS reconciliations.

**Management's Response**

While we believe that reconciliation took place in October 2014, we could not locate the document in question in this finding.

The comment that the University "document and implement a procedure for the documentation and storage of SAS reconciliations" is noted, and the University would like to report that changes to our reconciliation processes are under way that will improve our documentation procedures for reconciliation.

Currently the loan reconciliation reports are generated by COD and sent to our SAIG mailbox. We forward them to Fiscal Services for reconciliation. We are moving to the use of RLRDLRC (a job in Banner) that will allow us to reconcile Direct Loans within Banner in the Financial Aid Office, instead of documents being sent to our Fiscal Services area. We will still need information from our Fiscal Services area to make sure we are in agreement, but the new process will allow us to retain all files internally.

Monthly output will be saved on our secure server.

The Financial Aid Director will be responsible for overseeing this change, in coordination with Associate Director (IT Business Analyst), and the Financial Aid Account Manager.

**APA Finding- Improve Notification of Awards to Students**

The Student Financial Aid Office of George Mason did not properly notify students that received a loan disbursement on May 8, 2015. Our audit identified four students that had not been notified. However, upon further review, we determined that an additional 273 students did not receive the required notification. The students were not notified due to a management oversight in the manual notification process. George Mason management is currently working on making notifications to students an automated process.

Code of Federal Regulations, Title 34 CFR 668.165 (2)(ii) states that an institution must notify the student or parent of "the student's right or parent's right to cancel all or a portion of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary." Furthermore, 34 CFR 668.165 (3)(i) states that the institution must provide the notice "no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution, if the institution obtains affirmative confirmation from the student."

The improper notification of student disbursements in accordance with Federal Regulations may result in adverse action taken against George Mason as outlined in 34 CFR 668 Subpart G. George Mason should review its current processes to ensure compliance with notification requirements.

**Management's Response**

In the 2014-15 year, the process (ROREMAL) of sending Direct Loan Disclosure notification letters (email coded as AR_LOAN_DSB_EML) was activated manually by the Operations Manager, following the disbursement of loans. This step was overlooked on the May 8, 2015 date.

We have now changed this process in Banner so that instead of requiring manual intervention for the job to run, the job will be run automatically in our Workload Automation Suite (Appworx), following the disbursement function.

As an additional safeguard, the Associate Director (IT Business Analyst), in the Financial Aid Office, has created a process whereby she, the Director of Financial Aid, the Associate Director of Operations, and the IT Coordinator will each receive a daily email generated by the system, that will give us a job report to review to ensure that the loan notification process successfully completed. The report will indicate the number of emails sent which can be compared to the number of loans disbursed.

Finally, a separate report is being created which can be run to compare names of students with disbursed loans, to the names of students who received the loan origination email (AR_LOAN_DISB_EML) if any discrepancy in the numbers does exist.

The person responsible for overseeing the full implementation of these changes is the Director of Financial Aid. These new procedures should prevent the occurrence of missed loan disclosure emails in the future.

Sincerely,

Jennifer Wagner Davis

Senior Vice President, Administration and Finance

## GEORGE MASON UNIVERSITY

Fairfax, Virginia
As of June 30, 2015

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Stuart Mendelsohn, Vice Rector

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