



VIRGINIA STATE UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Virginia State University for the year ended June 30, 2017, 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.

We have audited the basic financial statements of Virginia State University as of and for the year ended June 30, 2017, and issued our report thereon, dated March 16, 2018. Our report, including in the University's Financial Statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the University's website at www.vsu.edu.

– TABLE OF CONTENTS –

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-3
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	4-6
UNIVERSITY RESPONSE	7-8
UNIVERSITY OFFICIALS	9

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Virtual Private Network Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Virginia State University (University) has not implemented a required control to protect remote access sessions in accordance with the Commonwealth's Information Security Standard, SEC-501 (Security Standard). The Security Standard requires the enforcement of certain security controls when accessing sensitive and mission critical systems remotely to protect the confidentiality, integrity, and availability of the data stored and processed in the internal network.

We communicated the details of the control weakness to the University in a separate document marked Freedom of Information Act Exempt (FOIAE) under §2.2-3705.2 of the Code of Virginia, due to its sensitivity and description of security mechanisms.

The University is reviewing options to address this weakness, but until the University finishes implementation of the control, or develops compensating controls, the weakness will persist during remote sessions to sensitive systems.

The University should continue to implement the control communicated in the FOIAE document. By implementing this control, the University will further reduce the data security risk to sensitive and mission critical systems in the internal network.

Improve User Access Controls

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Partial

University system owners are not consistently removing terminated employees' access to systems on their last day of work. In addition, Technology Services did not conduct an annual review of users with access to the University's administrative system again this year. Finally, Technology Services granted direct access to the University's administrative system for three of five users without obtaining an approved IT Access Request Form. Direct access involves giving users additional access, beyond their typical role access.

Despite any mitigating controls, such as automatic password expiration and removal of access in Active Directory, security officers must remove access to all applications used by terminating employees. Part D of University Policy 6310, *Logical Access Control and Account Management Policy*, requires the immediate termination of user access to all systems effective on the employees last day of work. This policy is consistent with and was developed to promote the University's compliance with the Security Standard, Section PS-4, *Personnel Termination*. Further, University Policy 6310.C.6 requires that

departments annually review user accounts and sign off that the access is reasonable and this policy is consistent with the Security Standard, Section AC-2j. Reviewing accounts at least annually serves to minimize the risks associated with user accounts that departments did not properly delete during the year or users with access to modify or view information not necessary to perform their jobs. Finally, Part C, Authorization, of the University's Policy 6310, *Logical Access Control and Account Management Policy*, requires that Technology Services require an approved IT Access Request Form before granting access. This policy is consistent with and was developed to promote the University's compliance with the Security Standard, AC-2, *Account Management*.

The University should require Human Resources to notify all system owners whenever an employee terminates and system owners should then immediately disable the terminated employee's access. Further, system owners should assign access based on the principle of least privilege, perform an annual review of access to ensure the granted roles are appropriate based on the employee's job duties, and require an approved IT Access Request Form for all granted access

Improve Documentation of Emergency and Sole Source Contract Procurements

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Purchasing could not provide adequate documentation to verify that the University made emergency and sole source procurements in accordance with the Department of General Service's Agency Procurement and Surplus Property Manual (Procurement Manual) and the Virginia Information Technologies Agency Buy IT Manual (VITA Manual). Purchasing procured six emergency contracts and 28 sole source contracts during fiscal year 2017 and did not adequately document key elements such as evidence that they sought competition, determined price reasonableness, had a sufficient rationale for vendor selection, and justified the emergency.

Without documentation, purchasing officers cannot provide evidence to demonstrate that they followed regulations in the Procurement Manual and the VITA Manual. The Procurement Manual, Chapters 9 and 8, and VITA Manual, Chapter 16, outlines all requirements for emergency and sole source procurements. According to the Procurement Manual Chapter 9, emergency procurements should include a rationale for vendor selection, evidence of competition and a determination of price reasonableness. Both the Procurement Manual, Chapter 8, and the VITA Manual, Chapter 16, require that sole source documentation include explanations of why a product is the only product that meets a need, why the vendor is the only practicable source to provide the product, an explanation of price reasonableness, and noncompetitive negotiations.

Purchasing should ensure that all emergency and sole source procurements follow the Procurement Manual and VITA Manual and that they retain documentation in contract files that is of sufficient detail to support the contract award decisions. We recommend that Purchasing and the University become strategic about its procurement planning and consider its future needs as to limit its use of emergency procurements. Procurement planning provides an opportunity for Purchasing to seek

competition and evaluate price reasonableness, so the University avoids paying the premium prices for goods and services that an emergency can involve.

Improve Internal Controls for Retirement Benefits System Census Data Reporting and Confirmation Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The University's Human Resources and Payroll departments do not have sufficient internal controls over the Commonwealth's retirement benefits system (retirement benefits system) monthly process. Human Resources could not provide supporting documentation to verify that retirement benefits census data was accurate. Additionally, there were multiple instances where the departments did not confirm the contribution snapshot timely. Specifically, our review found that Human Resources could not locate two out of twenty employee files; the fiscal year 2017 updated salary document was not included in the employee's file and could not be located for one out of twenty employees; and the departments submitted the confirmations late for five out of twenty-four contribution snapshots.

Human Resources could not provide a reasonable explanation as to why the employee files and documents were missing and could not provide an explanation as to the discrepancy for the employee's salary dates in the retirement benefits system. The Virginia Retirement System (VRS) Publication *Employer Manual- Enroll and Maintain Employees* states that all employers are required to provide and maintain accurate data in employee records regarding demographic data, annual salary, contract start date, and period. Accurate census data is required for the retirement benefits system to calculate the employee's creditable compensation.

Additionally, the retirement benefits system reconciliation and snapshot confirmation is necessary to ensure the retirement benefits system includes accurate creditable compensation and retirement codes for the current month for all employees. VRS Publication *Employer Manual- Contribution Confirmation and Payment Scheduling* states that all employers are required to confirm the Retirement Benefits system contribution snapshot by the tenth of the following month. When confirmations are late, there are delays in benefit processing and could result in errors due to incorrect or incomplete information. These VRS publications are consistent with Section 50410 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual.

Human Resources and Payroll should establish adequate internal controls to ensure they retain employee files and perform the retirement benefits system reconciliation and confirmation process timely to comply with the CAPP Manual and VRS employer publications.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

March 16, 2018

The Honorable Ralph S. Northam
Governor of Virginia

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

Board of Visitors
Virginia State 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 **Virginia State University** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 16, 2018. 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 the University, 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 the University's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting entitled "Improve Virtual Private Network Security," "Improve User Access Controls," "Improve Documentation of Emergency and Sole Source Contract Procurements," and "Improve Internal Controls for Retirement Benefits System Census Data Reporting and Confirmation Process," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings entitled "Improve Virtual Private Network Security," "Improve User Access Controls," "Improve Documentation of Emergency and Sole Source Contract Procurements," and "Improve Internal Controls for Retirement Benefits System Census Data Reporting and Confirmation Process."

The University's Response to Findings

We discussed this report with management at an exit conference held on March 20, 2018. The University's response to the findings identified in our audit is described in the accompanying section titled "University Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has partially corrected the previously reported finding “Improve User Access Controls.” Accordingly, we included this finding in the section entitled “Internal Control and Compliance Findings and Recommendations.” The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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

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March 21, 2018

Ms. Martha Mavredes
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218-11295

Dear Ms. Mavredes:

Virginia State University has reviewed the Financial Internal Control and Compliance Findings and Recommendations provided by the Auditor of Public Accounts for the year ended June 30, 2017. The University acknowledges and is in agreement with the following findings and recommendations:

Improve Virtual Private Network Security

The University will ensure the implementation of internal controls to protect remote access sessions in accordance with the Commonwealth's Security Standard.

Improve User Access Controls

The University will continue its efforts to improve and ensure compliance regarding user access control. Technology Services will work with System Owners to ensure that access is reviewed at least annually. Technology Services will also ensure that the appropriate personnel has access to systems, that terminated employees can no longer access University Systems, and that permissions are consistent with the roles and responsibilities of the staff members who have been granted those permissions.

Improve Documentation of Emergency and Sole Source Contract Procurements

The University will strengthen its documentation of emergency and sole source procurements to ensure compliance with the Department of General Service's Agency Procurement and Surplus Property Manual and the Virginia Information Technologies Agency Buy IT Manual. The University will ensure Purchasing is further integrated in the University's planning process so that emergency procurements are limited and the University has adequate time to seek competition and evaluate price reasonableness.

Ms. Martha Mavredes
March 21, 2018
Page 2

Improve Internal Controls for Retirement Benefit System Census Data Reporting and Confirmation Process

The University will establish internal controls to ensure the proper retention of employee files and perform the Retirement Benefits system reconciliation and confirmation process by the established due date.

Virginia State University is committed to addressing these audit findings and recommendations. On behalf of the administration and staff at Virginia State University, please extend my gratitude to your staff for their commitment and professionalism.

Sincerely,

A handwritten signature in black ink, appearing to read 'KD', followed by a long horizontal flourish.

Kevin Davenport
Vice President for Finance and Chief Financial Officer

cc: Dr. Makola M. Abdullah, President
Mr. Atif Qarni, Secretary of Education
Mr. David Von Moll, State Comptroller
Mr. Daniel Timberlake, Director of Planning and Budgeting

VIRGINIA STATE UNIVERSITY

As of June 30, 2017

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ADMINISTRATIVE OFFICIALS

As of June 30, 2017

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President

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Vice President of Finance

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