



LONGWOOD UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

We have audited the basic financial statements of Longwood University (Longwood) as of and for the year ended June 30, 2022, and issued our report thereon, dated August 23, 2023. Our report, included in Longwood's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at Longwood's website at www.longwood.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;
- one deficiency that we consider to be a material weakness in internal control;
- additional 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.

Longwood has not taken adequate corrective action with respect to one previously reported finding. Accordingly, we designated this finding with a "repeat" label in the section entitled "Internal Control and Compliance Findings and Recommendations." Longwood has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Internal Controls over Reporting Leases

Type: Internal Control

Severity: Material Weakness

Repeat: No

Longwood University (Longwood) did not fully comply with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 87, which prescribes the applicable accounting standards surrounding the proper accounting and financial reporting for leases. This standard was new and complex, requiring significant preparation and effort from the Department of Accounting and Financial Reporting (Financial Reporting) prior to implementation. However, even with this significant effort, Financial Reporting's implementation included the following errors:

- \$3.8 million understatement of the beginning balance for right-to-use lease assets and lease liabilities;
- \$4.3 million overstatement of the current year additions for right-to-use lease assets and lease liabilities;
- \$0.4 million overstatement of the net right-to-use lease assets ending balance;
- \$0.4 million overstatement of the lease liabilities ending balance; and
- Immaterial over/understatements to various other lease-related line items.

The deficiencies outlined below resulted in the misstatements and adjustments to the fiscal year 2022 financial statements noted above:

- Of the six leases tested, five (83%) were pre-existing leases with the Longwood University Real Estate Foundation (Foundation). The pre-existing leases did not explicitly provide an interest rate within the lease agreement; however, the Foundation determined the incremental borrowing rate for each lease. Although the Foundation provided Financial Reporting with multiple incremental borrowing rates, Financial Reporting inappropriately used the prime interest rate to calculate the present value of the future lease payments and the resulting right-to-use lease asset and liability. As a result, Financial Reporting reassessed the incremental borrowing rate for each of the pre-existing leases with the Foundation based on the rates provided to calculate the appropriate adjustments.
- Financial Reporting incorrectly recorded the commencement date of one of the six leases reviewed (17%) and the lease termination date of two of the six leases reviewed (33%) in the Commonwealth's lease accounting system (System), resulting

in an incorrect useful life of the right-to-use lease asset and a misstatement of the right-to-use lease asset, the associated amortization, and the liability related to the lease.

- Financial Reporting entered the payment frequency inaccurately in the System for one of the six leases reviewed (17%) as monthly rather than yearly, which overstated the right-to-use lease asset and liability value.
- Financial Reporting improperly excluded one right-to-use land lease with the Foundation. As a result, Financial Reporting did not account for the lease in the System or the fiscal year 2022 financial statements, understating the right-to-use lease asset and liability.
- Financial Reporting did not record beginning balances for pre-existing right-to-use lease assets as required by GASB Statement No. 87, but instead combined pre-existing leases with current year lease additions.
- Financial Reporting reported multiple leases with automatic annual renewal clauses with the Foundation as short-term leases. However, these leases have been in place for years and will continue to be used for many years in the future. The classification and accounting for leases structured to meet the definition of short-term that are with related parties, with mutual understanding that the lease contract will stay in effect for several more years, should not be accounted for as a short-term lease. Instead, Financial Reporting should recognize the substance of the transaction rather than merely its legal form. Financial Reporting reassessed the useful life of the short-term leases with the Foundation and updated the term in the System, resulting in long-term classification for four of the leases with the Foundation.
- One lease tested with the Foundation had an annual payment of \$1, which is not an exchange-like transaction and is specifically excluded in GASB Statement No. 87. As a result, Financial Reporting reviewed all pre-existing agreements and removed five nonexchange transactions.
- Lastly, Financial Reporting inappropriately reported a right-to-use land lease as a right-to-use building lease resulting in an overstatement of the right-to-use building lease and an understatement of the right-to-use land lease.

Financial Reporting has designed and implemented internal controls relevant to the preparation of GASB Statement No. 87. However, management misunderstood the interest rate requirements, as disclosed in GASB Statement No. 87, and used the prime rate to maintain consistency among all pre-existing leases, instead of making the appropriate determination distinct to each lease agreement. Additionally, human error and insufficient understanding of GASB Statement No. 87 requirements resulted in multiple reporting errors in the System and financial statements. The Commonwealth

Accounting Policies and Procedures (CAPP) Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87, and users of the System should review the specific requirements of the statement. Misapplication or misinterpretation of GASB Statement No. 87 can result in inaccurate financial reporting, which can affect long-term planning and the decision making of individuals or other institutions that rely on the reported financial information.

Financial Reporting should report lease activity in the financial statements consistent with the standards outlined in GASB Statement No. 87. In doing so, management should continue to strengthen their understanding of the new financial reporting standard by attending detailed training. This will help to ensure Financial Reporting properly reports lease information in future financial statements. In addition, GASB statement No. 96 – Subscription-Based Information Technology Arrangements (SBITAs) will be effective for fiscal year 2023. The accounting for SBITAs mirrors the accounting for leases in GASB Statement No. 87. Financial Reporting should ensure that they apply their enhanced understanding of these standards to the reporting of SBITAs.

Improve Asset System Operating System Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Partial (first issued in fiscal year 2021, with significant progress)

Longwood made progress in implementing its corrective action plan to address identified weaknesses to improve the security of the asset system's operating system in accordance with Longwood's Operational Guidelines Policy as well as their adopted security standard, the International Organization for Standardization and the International Electrotechnical Commission Standard, ISO/IEC 27002 (ISO Standard), and industry best practices, such as Center for Internet Security Benchmarks. Longwood has remediated one of the two previously identified weaknesses; however, the other weakness remains. We communicated the weakness 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. The ISO Standard requires organizations to implement certain controls that reduce unnecessary risk to the confidentiality, integrity, and availability of Longwood's information systems and data.

Longwood tasked individuals in the Information Security (IS) department with remediation of the identified weaknesses. Longwood subsequently experienced turnover in the IS department, resulting in a delay of corrective action. Longwood should continue to implement corrective action to remediate the remaining weakness identified in the communication marked FOIAE. Addressing this weakness will help to ensure the confidentiality, integrity, and availability of sensitive and mission critical data.

Conduct Information Technology Security Audits

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Longwood does not perform timely information technology (IT) security audits over its sensitive IT systems in accordance with the ISO Standard. Additionally, Longwood's IS department has not developed a policy or procedure that details the requirements and process for performing IT security audits over each of Longwood's sensitive systems within a certain interval of time. Longwood contracted with an external third-party service provider to perform annual penetration tests of Longwood's environment each of the last three years. However, from fiscal years 2020 to 2022, Longwood did not conduct a comprehensive IT security audit for each of its sensitive systems to assess whether IT security controls implemented to mitigate risks are adequate and effective.

The ISO Standard, Section 5.35, requires that Longwood plan and initiate periodic information security reviews, and that the reviews should include the need for changes to topic-specific policies and other controls. Section 5.35 also states that the reviews should be carried out by individuals independent of the area under review, such as the internal audit function or an external third-party organization specializing in such reviews. Section 5.1 requires that topic-specific policies should be defined, approved by management, published, communicated, and reviewed.

Without conducting IT security audits for each of Longwood's sensitive systems, Longwood increases the risk of potential undiscovered weaknesses in its sensitive systems. Additionally, without having a defined policy and procedure that outlines the requirements for performing IT security audits, Longwood cannot ensure that the audits are properly planned and executed.

Longwood previously tasked its Office of Internal Audit (Internal Audit) with conducting IT security audits. However, Longwood's IT Auditor position within Internal Audit has remained vacant since July 2020, when the IT Auditor transitioned to the IS department. Since then, Internal Audit has not hired an IT Auditor to fill the vacant position, which contributed to Longwood being unable to complete the required audits. Funding constraints contributed to Internal Audit's delay in recruiting an IT auditor qualified to perform technical audits of sensitive systems or procuring an external auditor to complete the required audits. Additionally, not having an established policy and procedure documenting the requirement for IT security audits contributed to Longwood not completing the audits.

Longwood's IS Department should establish a policy and procedure that requires that IT systems classified as sensitive undergo an IT security audit within a certain interval of time and assigns responsibility for management of IT security audits. Longwood should then complete the planned IT security audits, either through Internal Audit or through the acquisition of external third-party services. Compliance with the periodic information security review requirements of the ISO Standard will help to ensure the confidentiality, integrity, and availability of sensitive and mission critical data.

Perform and Document Commonwealth's Retirement Benefits System Reconciliations

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Longwood did not perform and document reconciliations between the Commonwealth's human resource and payroll management system and the Commonwealth's retirement benefits system since implementing the new statewide human resource and payroll management system in October 2021.

The Retirement System Employer Manual's Contribution Confirmation and Payment Scheduling section requires agencies to perform a monthly creditable compensation and data elements reconciliation between the agency's human resources system and the Commonwealth's retirement benefits system. The reconciliation should occur before the agency submits a contribution confirmation of benefits and after receiving the billing from the retirement benefits system. Additionally, CAPP Manual Topic 50905 requires agencies to maintain reconciliation documentation for five years or until audited.

Longwood implemented the new statewide human resource and payroll management system in October 2021. Although the Department of Accounts (Accounts) did not update all of the CAPP Manual topics related to payroll and human resources, they did provide job aids, trainings, and other guidance through email that outlined procedures each agency should perform as part of payroll operations with the new system, such as monthly and quarterly reconciliations and certification. It was management's responsibility to ensure the Human Resources and Payroll staff attended training and used the information in the job aids to help determine how to go about performing activities like reconciliations. By not performing reconciliations between the systems, errors in employment information, such as employee status or salary information, could go uncorrected and could potentially result in incorrect billings for retirement benefits, incorrect calculation of pension liabilities reported in the financial statements, and incorrect retirement benefits paid to retirees.

Human Resources and Payroll staff should use information provided by Accounts in trainings, emails, and job aids to develop procedures to perform and document monthly reconciliations between the human resource and payroll management system and retirement benefits system. Management should ensure that staff perform the reconciliations and retain supporting documentation for at least five years.

Improve Process for Timely Removal of Terminated Employee System Access

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Longwood did not remove terminated users' access timely for the following systems after the users separated from the university:

- The IT Department removed system access for all seven (100%) employees with access to Longwood's accounting and financial reporting system between five and 547 days after termination.
- Human Resources removed system access for one of three (33%) employees with access to the Commonwealth's retirement benefits system five days after termination.

The ISO Standard, Section 5.18, Access Rights, requires entities to "ensure access rights of users who have left the organization are removed in a timely fashion." Not removing system access timely increases the risk of unauthorized access to highly sensitive data by individuals no longer employed by Longwood.

The untimely removal of system access was primarily the result of management oversight and policies and procedures that are not in compliance with the ISO Standard. Longwood does have a control in place within its accounting and financial reporting system that removes access to Longwood's virtual private network upon employee termination. Employees are not able to access the accounting and financial reporting system without this access. However, the Director of Information Security was unable to provide evidence of this removal; therefore, we cannot rely on this compensating control. In addition, it is best practice to remove employee access at the system level upon termination.

Longwood should implement a policy and develop a process in compliance with the ISO Standard to remove system access timely when the employee separates from the university. Deactivating system access timely will ensure compliance with the ISO Standard and reduce the risk of unauthorized transactions and potential exposure of sensitive data.

Develop Position Descriptions

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Longwood does not have a position description for the Associate Vice President of Information Technology Services and Information Security Officer (AVP of IT Services and ISO) or the Vice President of Strategic Operations and Chief Information Officer (VP of Strategic Operations and CIO) positions in accordance with Longwood policy and the ISO Standard.

Longwood's Administration & Finance Policy 2054: Terms and Conditions of Employment for Administrative and Professional Faculty, Section E, states that performance evaluations will be conducted annually for all Administrative and Professional employees below the level of Vice President, at least once every three years for Vice Presidents and the Director of Athletics, and that the evaluation will be based on documented position description tasks and mutually agreed-upon performance standards. Section 6.1 of the ISO Standard states that when an individual is hired for a specific information security role, the organization should make sure the candidate has the necessary competence to perform the security role.

Without a documented, up-to-date position description for both the AVP of IT Services and ISO position and the VP of Strategic Operations and CIO position, Longwood has not defined current job duties, responsibilities, and necessary qualifications for each position. Without a position description for the AVP of IT Services and ISO, Longwood cannot validate that there are no conflicting job responsibilities related to information technology and security between these two positions. Additionally, Longwood bases an employee's performance evaluation on the employee's documented position description tasks. Without position descriptions for these two employees, Longwood runs the risk of potentially inaccurate performance evaluations based on personal preferences rather than defined performance criteria.

Longwood tasks employees' supervisors with developing a position description for each employee in their department and submitting the position descriptions to Human Resources. The supervisor of the AVP of IT Service and ISO position and the supervisor of the VP of Strategic Operations and CIO position have not completed a position description for these two employees and submitted the documents to Human Resources. Therefore, Human Resources does not have documented position descriptions for the two employees.

Longwood should develop and document position descriptions for the AVP of IT Services and ISO position and the VP of Strategic Operations and CIO position that detail job duties, responsibilities, and qualifications in order to ensure proper segregation of duties between roles. Compliance with Longwood policy and the ISO Standard will help to ensure Longwood has proper segregation of duties between information technology and security positions and ensure Longwood conducts performance evaluations based on defined performance criteria rather than personal preferences.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 23, 2023

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Visitors
Longwood 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 **Longwood University** as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated August 23, 2023. Our report includes a reference to other auditors who audited the financial statements of the component units of the University, as described in our report on the University's financial statements. The other auditors did not audit the financial statements of the component units of the University 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 University.

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 (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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 deficiency titled “Improve Internal Controls over Reporting Leases,” which is described in the section titled “Internal Control and Compliance Findings and Recommendations,” to be a material weakness.

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 titled “Improve Asset System Operating System Security,” “Conduct Information Technology Security Audits,” “Perform and Document Commonwealth’s Retirement Benefits System Reconciliations,” “Improve Process for Timely Removal of Terminated Employee System Access,” and “Develop Position Descriptions,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations,” 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 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 titled “Improve Asset System Operating System Security,” “Conduct Information Technology Security Audits,” “Improve Process for Timely Removal of Terminated Employee System Access,” and “Develop Position Descriptions.”

Longwood’s Response to Findings

We discussed this report with management at an exit conference held on August 23, 2023. Government Auditing Standards require the auditor to perform limited procedures on the University’s response to the findings identified in our audit, which is included in the accompanying section titled

“Longwood’s Response.” The University’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

The University has not taken adequate corrective action with respect to the previously reported finding “Improve Asset System Operating System Security.” Accordingly, we included this finding in the section titled “Internal Control and Compliance Findings and Recommendations.” The University has taken adequate corrective action with respect to the other audit finding reported in the prior year that is 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 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

DBC/clj

LONGWOOD
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August 23, 2023

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

Dear Ms. Henshaw,

Longwood University has reviewed the Internal Control Findings and Recommendations provided by the Auditor of Public Accounts for fiscal year ending June 30, 2022 and is in agreement, in principle, with all of the findings submitted.

Attached for your consideration is a brief update as to where the campus is with respect to progress on the findings. The formal Corrective Action Workplan will be submitted within thirty days as required by CAPP Manual Section 10205. Please contact me should you have any questions or require additional information.

On behalf of Longwood University, please extend my appreciation to all of your staff for their professional audit work and recommendations.

Sincerely,



Matthew McGregor
Vice President for Administration and Finance

Office of Accounting and Financial Reporting



FY 2022 – Internal Control Findings and Recommendations

Improve Internal Controls over Reporting Leases

- Longwood University Financial Reporting staff have worked with APA and DOA to clarify our understanding of the GASB 87 standard and have updated procedures to ensure compliance with this standard and with the future implementation of GASB 96.

Continue to Improve Windows Operating System Security – Repeat Finding

- Longwood has begun documenting and implementing a baseline configuration for the system that is based on ISO Standard requirements and industry best practices, such as CIS Benchmark.

Conduct Information Technology Security Audits

- Information Technology Services and Internal Audit will collaborate and review actionable options for this MP.

Perform and Document Commonwealth's Retirement Benefits System Reconciliation

- Longwood University Human Resources staff will continue to compare all payroll transactions with data in VNAV and work with DOA and the Cardinal team to utilize available tools to aid in this reconciliation.

Improve Process for Timely Removal of Terminated Employee System Access

- Longwood University Human Resources staff will implement controls to remove access in a timely manner and to conduct training for supervisors to ensure that they know the importance of submitting separation paperwork to HR in a timely manner so that system access can be terminated.

Develop Position Descriptions

- Longwood ITS will work with executive management to develop appropriate position descriptions for VP of Strategic Operations and AVP of IT Services, as well as appoint and update the Director of Information Security position description to be ISO.

LONGWOOD UNIVERSITY

As of June 30, 2022

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