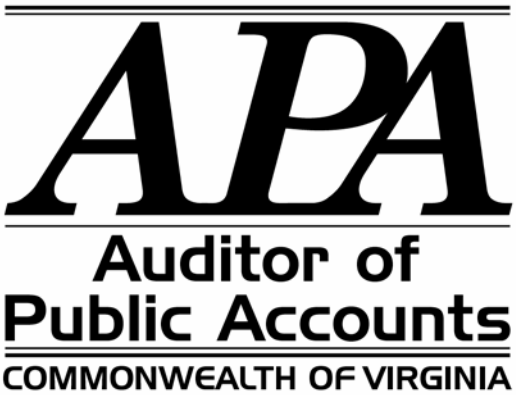
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2005



AUDIT SUMMARY

Our audit of Virginia Polytechnic Institute and State University for the year ended June 30, 2005, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses; and
- an instance of noncompliance or other matter required to be reported.

- T A B L E O F C O N T E N T S -

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 28, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Polytechnic Institute and
State University

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

We have audited the financial statements of **Virginia Polytechnic Institute and State University** as of and for the year ended June 30, 2005, and issued our report thereon dated October 28, 2005. Our report on the financial statements is contained in the President's Report 2004-2005 issued by the University. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Revise Student Financial Aid Quality Assurance Procedures" and "Document Minimum Security Configurations" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by

error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is entitled "Revise Student Financial Aid Quality Assurance Procedures" and described in the section titled "Internal Control and Compliance Findings and Recommendations."

EXIT CONFERENCE

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on November 2, 2005.

AUDITOR OF PUBLIC ACCOUNTS

WHC/kva

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Revise Student Financial Aid Quality Assurance Procedures

Federal regulations, 34 CFR sections 668.54-.57, require institutions participating in the U.S. Department of Education-approved Quality Assurance program to verify certain information on not more than 30 percent of its total number of applications. The institution shall also require applicants to verify any information used to calculate an applicant's Estimated Family Contribution (EFC) that the institution has reason to believe is inaccurate. For the 2004-05 cycles, the University pulled a statistically valid sample (350) of their aid applicants. For these applicants, the schools requested all documents to verify the required Institutional Student Information Records (ISIR) elements on each student's application.

We found the University's Student Financial Aid Quality Assurance procedures did not fully identify all students' verification criteria. From the initial sample of 350 applicants, the University's Quality Assurance Specialist performed an internal review, which resulted in 18 exceptions out of 51 students. We selected an additional sample of 16 students, and found five students (31.25 percent) had either missing or inaccurate documentation. The Student Financial Aid Department corrected the exceptions found during Quality Assurance Specialist's internal review, but they did not verify the information of the remaining students included in the initial Quality Assessment sample. Inaccurate documentation resulted in miscalculations of the students' estimated family contribution and, therefore, there was an incorrect award of financial aid.

As a result of our audit exceptions, the Student Financial Aid Department reviewed and corrected any errors found in the entire quality assurance sample. For those students who experienced an increase in their eligibility, the department disbursed the additional awards. For those students who experienced a decrease in their eligibility, the department replaced awards with aid from institutional funds. Accordingly, we will not report the audit exceptions as questioned costs.

We recommend that the Student Financial Aid Department review and revise its policies and procedures for the Quality Assurance program to ensure they receive complete and accurate information from the applications and properly verify this information. We also recommend the Department provide additional training to counselors regarding the quality assurance process.

Document Minimum Security Configurations

The University does not have university-wide minimum security configurations for critical database and operating system platforms. Currently, the University has a web page with links to guidance from various vendors and white papers regarding security measures for students and the University departments. University-established minimum security configurations for different platforms would ensure consistency in the systems environment and reduce the risk of system instability, especially for systems that contribute subsidiary information to the financial statements.

Although the University has security configurations in place for its central financial and administrative systems, the Administrative Information Systems (AIS) division has not documented all security configurations. Additionally, there is some sensitive or financial data which currently resides on systems not supported by AIS. At this time, the University cannot ensure that all of these systems consistently utilize minimal best practice security configurations to secure these systems. The Information Security Officer should coordinate the establishment of minimum university-wide security configurations for critical database and operating system platforms.

Virginia Tech
VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY

Office of the Executive Vice President and Chief Operating Officer

210 Burruss Hall (0148)
Blacksburg, Virginia 24061
(540) 231-6235 Fax: (540) 231-4265

February 1, 2006

Mr. David A. Von Moll
State Comptroller
Department of Accounts
P. O. Box 1971
Richmond, VA 23218-1971

Dear Mr. Von Moll:

Enclosed are the university's responses to the June 30, 2005 audit by the Auditor of Public Accounts (APA). Copies of these responses are being provided to the APA, the Director of Planning and Budget, and the Secretary of Education as required by Section 10205 of the CAPP manual.

Please contact me if additional information is needed.

Sincerely,

James A. Hyatt
Executive Vice President and
Chief Operating Officer

Enclosures

cc: Thomas R. Morris, Secretary of Education
Richard D. Brown, Director of Planning and Budget
Walter J. Kucharski, Auditor of Public Accounts (with diskette)
M. Dwight Shelton, Vice President for Budget and Financial Management
Kenneth E. Miller, University Controller

1. Revise Student Financial Aid Quality Assurance Procedures

A. Summary of Auditor's Comment.

Federal regulations, 34 CFR sections 668.54-.57, require institutions participating in the U. S. Department of Education-approved Quality Assurance program verify certain information on not more than 30 percent of its total number of applications. The institution shall also require applicants to verify any information used to calculate an applicant's Estimated Family Contribution (EFC) that the institution has reason to believe is inaccurate. For the 2004-05 cycles, the University pulled a statistically valid sample (350) of their aid applicants. For these applicants, the schools requested all documents to verify the required Institutional Student Information Records (ISIR) elements on each student's application.

We found the University's Student Financial Aid Quality Assurance procedures did not fully identify all students' verification criteria. From the initial sample of 350 applicants, the University's Quality Assurance Specialist performed an internal review, which resulted in 18 exceptions out of 51 students. We selected an additional sample of 16 students, and found 5 students or 31.25 percent had either missing or inaccurate documentation. The Student Financial Aid Department corrected the exceptions found during Quality Assurance Specialist's internal review, but they did not verify the information of the remaining students included in the initial Quality Assessment sample. Inaccurate documentation resulted in miscalculations of the students' estimated family contribution and, therefore, there was an over or under award of financial aid.

As a result of our audit exceptions, the Student Financial Aid Department reviewed and corrected any errors found in the entire quality assurance sample. For those students who experienced an increase in their eligibility, the department disbursed the additional awards. For those students who experienced a decrease in their eligibility, the department replaced awards with aid from institutional funds. Accordingly, we will not report the audit exceptions as questioned costs.

We recommend that the Student Financial Aid Department review and revise its policies and procedures for the Quality Assurance program to ensure they receive complete and accurate information from the applications and properly verify this information. We also recommend the department provide additional training to counselors regarding the quality assurance process.

B. Summary of Corrective Action.

Management has reviewed the policies and procedures for the Quality Assurance (QA) program and provided additional training to staff regarding the QA process, emphasizing the need for thoroughness. Policies and procedures are reviewed annually and updated as necessary. A desktop 'how-to' manual is under development to support staff tasked to review documentation for quality assurance.

Additionally, management has placed two monitors on select staff desks and installed a new scanner that will improve the quality of the imaged documents. Additional quality control procedures are being implemented for the next aid year, FY 06, to ensure we have a complete document, signed where necessary, before it is imaged. We have implemented a revision to the organizational structure to increase controls through functional specialization which will narrow the scope of individuals involved with application review as well as document processing. By having dedicated processors, it is anticipated these actions will greatly reduce errors related to missing signatures as well as clerical errors.

C. Implementation Date.

March 31, 2006

D. Responsible Position.

Director of the Office of Scholarships and Financial Aid

2. Document Minimum Security Configurations

A. Summary of Auditor's Comment.

The University does not have university-wide minimum security configurations for critical database and operating system platforms. Currently, the University has a web page with links to guidance from various vendors and white papers regarding security measures for students and the University departments. University-established minimum security configurations for different platforms would ensure consistency in the systems environment and reduce the risk of system instability, especially for systems that contribute subsidiary information to the financial statements.

Although the University has security configurations in place for its central financial and administrative systems, the Administrative Information Systems (AIS) division has not documented all security configurations. Additionally, there is some sensitive or financial data which currently resides on systems not supported by AIS. At this time, the university cannot ensure that all of these systems consistently utilize minimal best practice security configurations to secure these systems. The Information Security Officer should coordinate the establishment of minimum university-wide security configurations for critical database and operating system platforms.

B. Summary of Corrective Action.

A policy (Policy for Securing Technology Resources & Services) is being developed to address minimum security configurations and other security issues for university systems storing critical information. This policy will apply to any technology resource or service that is owned or managed by the university or connected to the university network. Departments and organizations will be responsible for assigning a technology resource to an individual who will be responsible for ensuring the continued security of the resource. Also, for each resource/machine, departments will be required to utilize the latest release of operating systems, install antivirus software, ensure virus definitions are updated regularly, and activate a firewall. At the present time, the policy is in final draft form, and will be presented to the Vice President for Information Technology in February 2006 for final approval.

To ensure compliance with this policy, Information Technology has created a new position in the Information Technology Security Office which will be used to audit critical university systems for security weaknesses. An employee is currently being trained for this task, and the department is evaluating tools and defining the audit approach to be used.

C. Implementation Date.

March 1, 2006

D. Responsible Position.

University IT Security Officer

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

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