



VIRGINIA COMMONWEALTH UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

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 Virginia Commonwealth University (the University) as of and for the year ended June 30, 2018, and issued our report thereon dated November 16, 2018. Our report, included in the University's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the University's website at www.vcu.edu.

Our audit of Virginia Commonwealth University for the year ended June 30, 2018, 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 Programs Cluster for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Compliance Supplement; and we found noncompliance related to this testing, which requires management's attention.

–TABLE OF CONTENTS–

Pages

AUDIT SUMMARY

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

1-4

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

5-7

UNIVERSITY RESPONSE

8-13

UNIVERSITY OFFICIALS

14

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Continuity Planning Documentation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Partial (first issued in fiscal year 2017)

Prior Title: Improve Risk Management and Continuity Planning Documentation

The University does not maintain effective Continuity Planning documentation, which may result in unnecessary delays when attempting to restore information technology (IT) services to some business functions. Specifically, the University does not have a Business Impact Analysis (BIA) to evaluate the University's essential and non-essential business functions and their dependence on IT systems.

As specified by the business continuity management system standard, ISO 22301:2012, organizations should complete a cycle of the BIA process before selecting business continuity strategies. The International Organization for Standardization offers guidance for establishing, implementing, and maintaining a BIA in ISO/TS 22317:2015. Without a BIA, the University is unable to identify its mission-critical and non-essential business functions and reliance on one or more IT systems. This increases the risk that the University may apply unnecessary or ineffective controls because it did not base its continuity management documentation on information in the BIA.

The University originally planned to complete its BIA by December 2018, but the date has been moved to July 2019 because the responsible resource left the University. The University is recruiting to fill that position and is training employees on the BIA process. The University should complete the BIA and update its continuity management documentation to ensure all systems that support mission-critical functions have the necessary controls in place. Doing this will help to ensure the availability of sensitive and mission critical systems.

Improve Timeliness of the Commonwealth's Retirement Benefits System Reconciliation Process

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The University is not performing reconciliations of the Commonwealth's retirement benefits system timely. During fiscal year 2018, the University confirmed ten out of 12 (83%) of the Commonwealth's retirement benefits system snapshots late, and submitted eight out of 12 (67%) payments after the due date. The Virginia Retirement System (VRS) Employer Manual states that at the end of each month, the employer is required to complete the contribution confirmation process by generating and confirming a snapshot. All employers are required to report employee activity for the month to VRS by the 10th of the following month. In addition, defined benefit retirement contributions and other ancillary benefits should be paid immediately following the confirmation, and must be paid on time and received by the 10th of the following month.

Confirming the snapshot late delays benefit processing and can result in errors due to incorrect or incomplete information. Additionally, according to the VRS Employer Manual and §51.1-146 of the Code of Virginia, employers who do not confirm the snapshot or pay contributions or insurance premiums on time may be assessed a penalty of 5 percent of the amount due, plus interest at the rate of 1 percent per month until the report is received and the payment is made.

To avoid penalties and ensure adherence with the VRS Employer Manual, the University should reinforce to both the Payroll Department and Benefits Department the guidance and deadlines set in place by the CAPP Manual and the VRS Employer Manual. In addition, the Payroll Department and Benefits Department should improve oversight of the employees completing this process and should consider whether their current process is the most effective for completing the confirmation and payment on time.

Comply with Commonwealth Requirements for Wage Employees

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes

The University should improve its process for monitoring non-benefit employee work hours to ensure compliance with Chapter 2 §4-7.01g of the 2018 Special Session I Virginia Acts of Assembly and the Patient Protection and Affordable Care Act. The University had six non-benefit employees work more than 1,500 hours from May 1, 2017 to April 30, 2018 and exceeding this limit could bring penalties from the federal government for noncompliance.

The University is responsible for implementing policies and procedures to ensure employees who are not eligible for benefits do not work more than 29 hours per week on average over a twelve-month period. The University has policies and procedures in place to monitor this, but current procedures do not prevent departments from allowing an employee to exceed the 1,500 hour requirement.

To avoid penalty payments and ensure compliance with state and federal requirements, Human Resources should reinforce to departments and employees the importance of not exceeding 1,500 hours annually. Human Resources should continue its proactive measures, developed during this reporting period, to monitor hours worked by wage employees and projecting their hours through year end to ensure that they will not exceed the 1,500 hour limit. If an employee does reach the 1,500 hour limit, the individual should not be allowed to work again until the beginning of the next measurement period.

Improve Reporting to National Student Loan Data System

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

University personnel did not report enrollment data to the National Student Loan Data System (NSLDS) accurately and timely. The cause of the errors appears to originate from personnel and/or the graduate file extracting the incorrect enrollment status and effective date. For the 50 students tested, we noted the following deficiencies:

- For nine students (18%), the enrollment status was incorrectly reported;
- Ten students (20%) had an inaccurate effective date in NSLDS;
- For eight students (16%), enrollment status change was not certified timely.

In accordance with Code of Federal Regulations 34 CFR 685.309 and further outlined in the Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, the University can affect the reliance placed by the Department of Education on the data for monitoring purposes and other higher education institutions when making aid decisions. Noncompliance may also have implications on an institution's participation in Title IV programs.

Management should perform a comprehensive review of current enrollment reporting policies and procedures and implement corrective action to prevent future noncompliance. Management should consider implementing a quality control review (QCR) process to monitor the submission of enrollment batches and the accuracy of reporting at both the campus and program levels in NSLDS. One of these options may be a QCR workgroup comprised of those employees involved in the enrollment reporting process. However, the type of QCR process implemented should be determined by University personnel in conjunction with members of management.

Ensure Proper FISAP Reporting of State Aid

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

University personnel inaccurately reported state grants and scholarship expenditures in the University's Fiscal Operations Report and Application to Participate (FISAP) for the reporting year 2017-2018, to the United States Department of Education (USDOE). As part of the reported expenditures, the University inappropriately included several types of institutional and state aid for which the University has a final decision to whom funds will be awarded. The cause of the errors appears to be incorrect interpretation of the FISAP instructions.

In accordance with 34 CFR 674.19, 675.19 and 676.19, an institution must submit a FISAP if it has expended campus-based program funds or has a Federal Perkins Loan Fund. According to FISAP instructions provided by the USDOE for Section II. Item 24 – State Grants and Scholarships, institutions should include need-based and non-need-based expenditures, which includes state grants, state scholarships, tuition equalization funds, competitive awards and instructional grant awards paid by the state, exclusive of any state awards where the institution has the final decision on which students get the funds. Since the USDOE uses information reported in the FISAP to determine the amount of funds each institution will receive for each campus-based program, inaccurately reporting information on the FISAP may affect the University’s funding.

Management should review FISAP instructions and consider consulting with the USDOE, if needed, to ensure it reports the proper amounts. Management should ensure that information and guidance obtained is sufficient to properly report amounts in FISAP Section II. Item 24 – State Grants and Scholarships.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 16, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Commonwealth 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 Commonwealth University** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 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 Continuity Planning Documentation," "Improve Timeliness of the Commonwealth's Retirement Benefits System Reconciliation Process," "Comply with Commonwealth Requirements for Wage Employees," "Improve Reporting to National Student Loan Data System," and "Ensure Proper FISAP Reporting of State Aid," 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 Continuity Planning Documentation," "Comply with Commonwealth Requirements for Wage Employees", "Improve Reporting to National Student Loan Data System," and "Ensure Proper FISAP Reporting of State Aid."

The University's Response to Findings

We discussed this report with management at an exit conference held on November 19, 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 not taken adequate corrective action with respect to the previously reported finding “Improve Continuity Planning Documentation” and “Comply with Commonwealth Requirements for Wage Employees.” Accordingly, we included these findings 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

KKH/vks



November 27, 2018

Patricia Perkins
AVP of Finance and Controller

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

912 West Franklin Street
Box 842035
Richmond, Virginia 23284-2512
804 828-5474

Dear Ms. Mavredes:

We have reviewed the audit findings and recommendations resulting from the fiscal year 2018 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference.

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

Findings of the Auditor:

1. Improve Business Continuity Documentation

The University does not maintain effective Continuity Planning documentation, which may result in unnecessary delays when attempting to restore information technology (IT) services to some business functions. Specifically, the University does not have a Business Impact Analysis (BIA) to evaluate the University's essential and non-essential business functions and their dependence on IT systems.

As specified by the business continuity management system standard, ISO 22301:2012, organizations should complete a cycle of the BIA process before selecting business continuity strategies. The International Organization for Standardization offers guidance for establishing, implementing, and maintaining a BIA in ISO/TS 22317:2015. Without a BIA, the University is unable to identify its mission-critical and non-essential business functions and reliance on one or more IT systems. This increases the risk that the University may apply unnecessary or ineffective controls because it did not base its continuity management documentation on information in the BIA.

The University originally planned to complete its BIA by December 2018, but the date has been moved to July 2019 because the responsible resource left the University. The University is recruiting to fill that position and is training employees on the BIA process. The University should complete the BIA and update its continuity management documentation to ensure all systems that support mission-critical functions have the necessary controls in place. Doing this will help to ensure the availability of sensitive and mission critical systems.

VCU Response:

VCU has filled the Director of Emergency Management position. The director completed the emergency management and operations software training in November. University employees are currently being trained on the Business Impact Analysis (BIA) process. The BIA process, as well as updating the system with the continuity management documentation, will be complete by June 30, 2019.

Responsible Person: Lori Dachille, Emergency Management Director

Completion Date: June 30, 2019

2. Improve Timeliness of the Commonwealth's Retirement Benefits System Reconciliation Process

The University is not performing reconciliations of the Commonwealth's retirement benefits system timely. During fiscal year 2018, the University confirmed ten out of 12 (83%) of the Commonwealth's retirement benefits system snapshots late, and submitted eight out of 12 (67%) payments after the due date. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 50410, *Virginia Retirement System and Optional Retirement Plans*, states that agencies should maintain compliance with the Commonwealth's retirement benefits system established deadlines and procedures. The Virginia Retirement System (VRS) Employer Manual states that at the end of each month, the employer is required to complete the contribution confirmation process by generating and confirming a snapshot. All employers are required to report employee activity for the month to VRS by the 10th of the following month. In addition, defined benefit retirement contributions and other ancillary benefits should be paid immediately following the confirmation, and must be paid on time and received by the 10th of the following month.

Confirming the snapshot late delays benefit processing and can result in errors due to incorrect or incomplete information. Additionally, according to the VRS Employer Manual and the Code of Virginia §51.1-146, employers who do not confirm the snapshot or pay contributions or insurance premiums on time may be assessed a penalty of 5% of the amount due, plus interest at the rate of 1% per month until the report is received and the payment is made.

To avoid penalties and ensure compliance with the CAPP Manual and the VRS Employer Manual, the University should reinforce to both the Payroll Department and Benefits Department the guidance and deadlines set in place by the CAPP Manual and the VRS Employer Manual. In addition, the Payroll Department and Benefits Department should improve oversight of the employees completing this process and should consider whether their current process is the most effective for completing the confirmation and payment on time.

VCU Response:

The Payroll Department will coordinate with the Benefits Office to ensure the files are generated by the 6th of the month and payments are processed on or before the 10th of each month. A new Executive Director of Payroll and Tax Services has been hired and this person will be responsible for ensuring that VCU adheres to all deadlines related to the reconciliation process.

Responsible Person: Veronica King, Executive Director of Payroll and Tax Services

Completion Date: December 1, 2018

3. Comply with Commonwealth Requirements for Wage Employees

The University should improve its process for monitoring non-benefit employee work hours to ensure compliance with Chapter 2 §4-7.01g of the 2018 Special Session I Virginia Acts of Assembly and the Patient Protection and Affordable Care Act. The University had six non-benefit employees work more than 1,500 hours from May 1, 2017 to April 30, 2018 and exceeding this limit could bring penalties from the federal government for noncompliance.

The University is responsible for implementing policies and procedures to ensure employees who are not eligible for benefits do not work more than 29 hours per week on average over a twelve-month period. The University has policies and procedures in place to monitor this, but current procedures do not prevent departments from allowing an employee to exceed the 1,500 hour requirement.

To avoid penalty payments and ensure compliance with state and federal requirements, Human Resources should reinforce to departments and employees the importance of not exceeding 1,500 hours annually. Human Resources should continue its proactive measures, developed during this reporting period, to monitor hours worked by wage employees and projecting their hours through year end to ensure that they will not exceed the 1,500 hour limit. If an employee does reach the 1,500 hour limit, the individual should not be allowed to work again until the beginning of the next measurement period.

VCU Response:

While it is ultimately the responsibility of the hiring schools and divisions to ensure that 1,500 work hours have not been exceeded, and it is the responsibility of managers within the schools and divisions to monitor compliance with these laws, VCU HR will continue to send automatic reports and consistent communication to the HR liaisons and will provide them with specific guidance to help them manage and monitor the hours of wage and hour employees who work in multiple departments.

Additionally, VCU HR will send another universal reminder regarding compliance with the laws, and the VCU HR Compliance Office will continue to monitor the quarterly hour reports. The VCU Compliance Office will direct the HR liaisons to immediately track and

maintain a running account of any employee who appears to be close to 29 hours per week or who appears to be in potential violation of the 1,500 annual hour limit.

Finally, in the 2018-2019 reporting year, VCU HR will continue to send the reports containing the names of employees who have exceeded 1,200 hours to the relevant HR liaisons, but the VCU HR Compliance Office will also proactively communicate directly with HR Professionals, as well as proactively and directly with the employee or wage worker exceeds 1,200 hours in the reporting period or anytime an employee is projected to meet or exceed the 1480 hour limit, and will direct the respective HR Professional overseeing the HR liaisons to more closely monitor the matter. The VCU HR Compliance Office will also discuss with the HR Professionals ways to incorporate measures within the schools and divisions to determine if hourly employees are working in multiple positions and engage them in discussing ways they can better manage this situation among the schools and divisions.

Responsible Person: Ishneila Moore, Director of Employee Relations and Performance Management

Completion Date: May 1, 2019

4. Improve Reporting to National Student Loan Data System

University personnel did not report enrollment data to the National Student Loan Data System (NSLDS) accurately and timely. The cause of the errors appears to originate from personnel and/or the graduate file extracting the incorrect enrollment status and effective date. For the 50 students tested, we noted the following deficiencies:

- For nine students (18%), the enrollment status was incorrectly reported;
- Ten students (20%) had an inaccurate effective date in NSLDS;
- Eight students (16%), enrollment status change was not certified timely.

In accordance with Code of Federal Regulations 34 CFR 685.309 and further outlined in the Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, the University can affect the reliance placed by the Department of Education on the data for monitoring purposes and other higher education institutions when making aid decisions. Noncompliance may also have implications on an institution's participation in Title IV programs.

Management should perform a comprehensive review of current enrollment reporting policies and procedures and implement corrective action to prevent future noncompliance. Management should consider implementing a quality control review (QCR) process to monitor the submission of enrollment batches and the accuracy of

reporting at both the campus and program levels in NSLDS. One of these options may be a QCR workgroup comprised of those employees involved in the enrollment reporting process. However, the type of QCR process implemented should be determined by University personnel in conjunction with members of management.

VCU Response:

To ensure that unofficial withdrawal enrollment updates are reported accurately and timely to NSLDS, the Office of Financial Aid will perform manual enrollment updates to NSLDS for all students who have withdrawn without official notification during a term/semester. This step has been added to the existing Return of Title IV procedure and will be implemented at the conclusion of the fall 2018 term/semester. To rectify the graduation status finding, the Office of Records and Registration is sending amended enrollment files to the National Student Clearinghouse (NSC) to update the NSLDS. The office has also added a supplementary enrollment report for graduates only to the transmission schedule provided to the NSC each semester. In addition, quality control reviews will be conducted in collaboration with staff from the Offices of Financial Aid and Records and Registration at the end of each semester to ensure timely and accurate reporting at both the campus and program levels.

Responsible Person: Marc Vernon, Executive Director of Financial Aid

Completion Date: January 31, 2019

5. Ensure Proper FISAP Reporting of State Aid

University personnel inaccurately reported state grants and scholarship expenditures in the University's Fiscal Operations Report and Application to Participate (FISAP) for the reporting year 2017-2018, to the United States Department of Education (USDOE). As part of the reported expenditures, the University inappropriately included several types of institutional and state aid for which the University has a final decision to whom funds will be awarded. The cause of the errors appears to be incorrect interpretation of the FISAP instructions.

In accordance with 34 CFR 674.19, 675.19 and 676.19, an institution must submit a FISAP if it has expended campus-based program funds or has a Federal Perkins Loan Fund. According to FISAP instructions provided by the USDOE for Section II. Item 24 – State Grants and Scholarships, institutions should include need-based and non-need-based expenditures, which includes state grants, state scholarships, tuition equalization funds, competitive awards and instructional grant awards paid by the state, exclusive of any state awards where the institution has the final decision on which students get the funds. Since the USDOE uses information reported in the FISAP to determine the amount of funds each institution will receive for each campus-based program, inaccurately reporting information on the FISAP may affect the University's funding.

Management should review FISAP instructions and consider consulting with the USDOE, if needed, to ensure it reports the proper amounts. Management should

ensure that information and guidance obtained is sufficient to properly report amounts in FISAP Section II. Item 24 – State Grants and Scholarships.

VCU Response:

In light of this finding, we will update Item 24 on the FISAP for the reporting year 2017-18 prior to the December 15, 2018 FISAP correction deadline. The Financial Aid Office will provide APA with confirmation of the update immediately following the December 15, 2018 submission date. Additionally, to ensure that this error does not occur in the future, we have revised our FISAP reporting procedures to contain specific instructions on what data is to be included and excluded when calculating the amount that is to be reported for this question.

Responsible Person: Marc Vernon, Executive Director of Financial Aid

Completion Date: December 31, 2018

Sincerely,



Patricia Perkins
Associate VP Finance and Controller
Virginia Commonwealth University

VIRGINIA COMMONWEALTH UNIVERSITY

As of June 30, 2018

BOARD OF VISITORS

Phoebe P. Hall, Vice Rector

John A. Luke, Jr., Rector

Carol S. Shapiro, Secretary

H. Benson Dendy, III

Todd Haymore

Robert D. Holsworth

Gopi Jadhav

Edward McCoy

Colette W. McEachin

Ronald McFarlane

Tyrone E. Nelson

Keith T. Parker

Stuart C. Siegel

Jacquelyn E. Stone

Shantaram Talegaonkar

G. Richard Wagoner, Jr.

ADMINISTRATIVE OFFICERS

Michael Rao, President

Karol Gray, Vice President of Finance and Budget