



# VIRGINIA MILITARY INSTITUTE

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Military Institute (Institute) as of and for the year ended June 30, 2016, and issued our report thereon, dated August 10, 2017. Our report, included in the Institute's basic financial statements, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the Institute's website at [www.vmi.edu](http://www.vmi.edu). Our audit of the Institute for the year ended June 30, 2016, 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.

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## STATUS OF PRIOR YEAR FINDINGS

### **Improve Compliance Over Enrollment Reporting**

During the prior audit, we recommended that the Institute improve procedures for reporting enrollment status changes to the federal National Student Loan Database System (NSLDS). The Institute was not reporting status changes accurately and timely due to software concerns with extracting data from the automated system. Upon performing follow-up on the prior finding, we determined that 5 out of 25 (20%) of student status changes were not reported accurately and/or timely to the National Student Loan Database System. A cadet's enrollment status is critical to providing information to the Department of Education on enrollment status for determining the need for loan deferment or grace periods. The status also provides other institutions critical data that assists in making federal aid decisions.

Institute personnel involved in the enrollment reporting process met with us to discuss potential concerns with enrollment reporting. The Institute has also implemented corrective measures that should promote compliance with enrollment reporting regulations. This corrective action was considered ongoing in the Commonwealth of Virginia Single Audit Report for the year ended June 30, 2016. We will perform follow-up in our next audit to determine if corrective measures have resulted in institutional compliance.

### **Properly Process Return of Title IV Calculations**

During the prior audit, we recommended that the Institute improve procedures for performing Title IV federal return calculations for cadets that had ceased attendance with the Institute and were no longer eligible for disbursed aid. The errors resulted from the Financial Aid Office not having proper procedures in place to identify when cadets had withdrawn and not being diligent in reviewing the accuracy of Title IV calculations. Upon performing follow-up on the prior year finding, we determined that the need for a Title IV calculation for one cadet (25%) was not identified and the calculation for a second cadet (25%) was not performed correctly. Accurate calculations are critical in order not to impact cadets and the Institute's participation in Title IV programs.

The Institute has implemented corrective measures that should promote compliance with Title IV regulations. This corrective action was considered ongoing in the Commonwealth of Virginia Single Audit Report for the year ended June 30, 2016. We will perform follow-up in our next audit to determine if corrective measures have resulted in institutional compliance.

### **Ensure Verification is Complete Prior to Disbursing Federal Financial Aid**

During the prior audit, we recommended that the Institute improve procedures for completing income verification, submitting known corrections, and maintaining a solid audit trail for cadets requesting federal financial aid. The oversight in requesting required documentation and submitting income corrections resulted from a misunderstanding of the verification requirements within the Financial Aid Office. Upon performing follow-up on the prior year finding, we determined that

verification for three out of 25 (12%) cadets had not been completed prior to disbursing federal financial aid. Verification is a vital step in determining a cadet's eligibility for federal financial aid prior to disbursing aid awards.

The Institute has implemented corrective measures that should promote compliance with verification regulations. This corrective action was considered ongoing in the Commonwealth of Virginia Single Audit Report for the year ended June 30, 2016. We will perform follow-up in our next audit to determine if corrective measures have resulted in institutional compliance.

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Virtual Private Network Security**

The Virginia Military Institute (Institute) does not implement a required control to protect remote access sessions in accordance with the Commonwealth's Information Security Standard, SEC 501-09 (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 Institute in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia, due to its sensitivity and description of security mechanisms.

The Institute is addressing this weakness and plans to finish the implementation by October 2017. Until the Institute finishes implementation of the control, or develops compensating controls, the weakness will persist during remote sessions to sensitive systems.

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

### **Improve Firewall Change Management**

The Institute does not sufficiently manage changes to enterprise firewalls and firewall rules in accordance with the Security Standard. Change management is a key control to evaluate, approve, and verify configuration changes to security components, such as enterprise firewalls.

We communicated the details of the control weaknesses to the Institute in a separate document marked FOIAE under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security mechanisms.

The Institute should dedicate the necessary resources to implement the controls communicated in the FOIAE document. Improving the management and maintenance of enterprise firewalls will decrease the risk of unauthorized alterations to the firewall and improve the Institution's network security.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

August 10, 2017

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

Board of Visitors  
Virginia Military Institute

## 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 the **Virginia Military Institute** as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Virginia Military Institute's basic financial statements and have issued our report thereon dated August 10, 2017. 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 Virginia Military Institute 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 Virginia Military Institute's internal control over financial reporting to determine the 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 Virginia Military Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Virginia Military Institute'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" and "Improve Firewall Management," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

### **Compliance and Other Matter**

As part of obtaining reasonable assurance about whether the Virginia Military Institute'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 "Status of Prior Year Findings" in the findings entitled "Improve Compliance Over Enrollment Reporting," "Properly Process Return of Title IV Calculations," and "Ensure Verification is Complete Prior to Disbursing Federal Financial Aid" and in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings entitled "Improve Virtual Private Network Security" and "Improve Firewall Management."

### **The Virginia Military Institute's Response to Findings**

We discussed this report with management at an exit conference held on August 8, 2017. The Virginia Military Institute's response to the findings identified in our audit is described in the accompanying section titled "Institute Response." The Virginia Military Institute'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 Institute has taken adequate corrective action with respect to some audit compliance findings reported in the prior year. Institute personnel have taken appropriate action to resolve federal compliance findings, “Perform and Document Monthly Reconciliations of Direct Loans,” “Reconcile Federal Fund Accounts,” and “Improve Notification of Awards to Students.” Federal compliance findings, “Improve Compliance over Enrollment Reporting,” “Properly Process Return of Title IV Calculations,” and “Ensure Verification is Complete Prior to Disbursing Federal Financial Aid,” which are described in the section titled “Status of Prior Year Findings” were reported in an ongoing corrective action status in the 2016 Commonwealth of Virginia Single Audit Report and will require follow-up in next year’s audit.

### **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

JRQ/clj

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8 August 2017

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

Dear Ms. Mavredes,

We have reviewed the 'Status of Prior Year Findings' included with this report by the Auditor of Public Accounts (APA) and discussed them during the exit conference. In response to the federal internal control and compliance findings, the Virginia Military Institute (the Institute) acknowledges and concurs with the status of prior findings and has, we believe at this point, completed the corrective action necessary to address the findings.

Additionally, we have reviewed the 'Internal Control and Compliance Findings and Recommendations' also included with the report by the APA and discussed them during the exit conference. The Institute acknowledges and is in agreement with the following findings and resultant recommendations:

- Improve Virtual Private Network Security
- Improve Firewall Change Management

The Institute concurs with the recommended additional controls described in the respective Freedom of Information Act Exempt management letter. Corrective actions for the cited control deficiencies will be addressed in a timely manner as detailed in the Institute's corrective action plan.

On behalf of the Institute, please extend my appreciation to the APA's VMI audit team for their commitment and professionalism.

Please contact me should you have any questions.

Very Respectfully,



COL Dallas B. Clark  
Director of Finance, Administration and Support



## **VIRGINIA MILITARY INSTITUTE**

As of June 30, 2016

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