

JAMES MADISON UNIVERSITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of James Madison University for the years ended June 30, 2008 and 2007, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- one internal control matter that we do not consider to be a material weakness; and
- no instances of non-compliance that are required to be reported under Government Auditing Standards.

We have audited the basic financial statements of James Madison University as of and for the year ended June 30, 2008 and issued our report thereon, dated March 31, 2009. Our report, included in James Madison 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.jmu.edu.

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AUDIT FINDINGS AND RECOMMENDATIONS

Correct Depreciation Calculation

The University's Fixed Asset Department did not perform an adequate review of asset depreciation when converting from the Commonwealth's Fixed Asset Accounting and Control System to their new fixed asset system, Assetmaxx. As a result, there was the need for an audit adjustment of \$1.8 million to increase depreciation expense and accumulated depreciation resulting in an overall decrease to net assets. The new system reset the useful lives of all assets, including fully depreciated assets, resulting in assets with negative depreciation. The University should correct Assetmaxx to ensure accurate calculation of depreciation according to generally accepted accounting principles and ensure the system makes no changes to the useful lives of fully depreciated assets.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 31, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the business-type activities and aggregate discretely presented component unit of **James Madison University** as of and for the year ended June 30, 2008 and 2007, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 31, 2009. Our report was modified to include a reference to other auditors. 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. 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 James Madison Foundation, Inc., a discretely presented component unit, which is 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, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled "Correct Depreciation Calculation," which is described in the section titled "Audit Findings and Recommendations," to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response, and accordingly, we express no opinion on it.

Status of Prior Findings

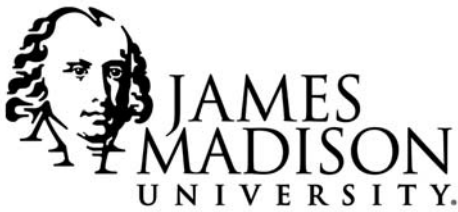
The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and 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 April 17, 2009.

AUDITOR OF PUBLIC ACCOUNTS



April 23, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218-1295

Dear Mr. Kucharski:

James Madison University has reviewed the internal control finding and recommendation provided by the Auditor of Public Accounts for the fiscal year ending June 30, 2008. The University agrees with your office's finding and has already taken action to address the issues. The finding is listed below followed by the University's corrective action plan.

Finding: Correct Depreciation Calculation

Management's Response:

James Madison University (JMU) concurs with the audit finding above. During fiscal year 2008, JMU implemented the fixed asset system AssetMaxx. AssetMaxx was presented as being GAAP compliant. The conversion process from FACCS included importing existing assets from the FACCS system, review of the useful lives of existing assets, and implementing bar code technology for the tracking of assets. After the review of asset classes and discussions with departmental operational managers, adjustments to useful life assets were made to reflect the use of assets on JMU's campus. The change in the useful life of assets caused the AssetMaxx software to incorrectly calculate the fiscal year 2008 depreciation expense.

Discussions with the vendor have occurred. These discussions have centered on AssetMaxx, current product and the system calculation of depreciation. On March 16, a conference call with the Vice President, Mike Borello, was held to discuss the system's calculation of depreciation. Mr. Borello agreed that AssetMaxx did not calculate depreciation according to GAAP when the useful life of an asset or asset class was changed. The vendor is exploring options to provide JMU with a fixed asset solution that is GAAP compliant. Our preferred option is to implement an upgraded version of AssetMaxx that is scheduled to be released to JMU in July. JMU will test the upgrade for GAAP compliance prior to placing the upgrade into production.

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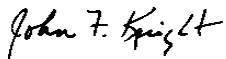
Mr. Walter J. Kucharski
April 23, 2009
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Additional Corrective Action:

- Enhance detailed procedures for the review and testing of depreciation calculations by developing documentation of calculation processes, develop reports to detect changes and system integrity, develop testing scripts to validate depreciation when changes occur in assets or asset classes, and use GAAP requirements to validate results.
- Calculate FY 2009 depreciation manually. A recalculation of selected assets will be conducted by a member of the Financial Reporting staff. A detailed review of supporting documentation and calculation of financial statement work papers will be completed by the Associate Controller. Based on the resolution offered by AssetMaxx, JMU will be testing, updating assets for manual calculations, verifying balances to audited financial statements, and confirming that depreciation calculations are in accordance with GAAP.

Please contact me if additional information is needed. On behalf of James Madison University, please extend my appreciation to all of your staff for their professional audit work and recommendation.

Sincerely,



John F. Knight
Assistant Vice President for Finance

JAMES MADISON UNIVERSITY

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