



NORFOLK STATE UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

We have audited the basic financial statements of Norfolk State University as of and for the year ended June 30, 2015, and issued our report thereon, dated October 8, 2015. 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.nsu.edu. Our audit of Norfolk State University 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 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 Circular A-133 Compliance Supplement; and found internal control findings requiring management's attention and instances of noncompliance in relation to this testing.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Controls for Deactivating System Access (repeat finding)

The Office of Information Technology (OIT) and the eVA Security Officer did not promptly terminate employee access to Norfolk State University's (University) network and the Commonwealth's eVA system, respectively, upon separation of an employee from the University. Seven out of 30 employees (23 percent) continued to have University network access for more than one, and up to seven months, after separation. Six out of six (100 percent) employees with access to the University's procurement system, eVA, continued to have access to the eVA system for at least one, and up to six months, after separation. Lack of prompt notification from Human Resources, employee supervisors, and system administrators to the Office of Information Technology and eVA Security Officer is the primary cause of the delay in terminating access.

Administrative Policy # 32-8-102 (2014) Account Management requires notification from supervisors, Human Resources, and system administrators about employee termination with access rights to internal and external systems and data. Further, the policy requires OIT to temporarily disable logical access rights when personnel do not need such access for a prolonged period in excess of 30 days. These policies support compliance with the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard), Section AC-2-COV, requiring the prompt removal of system access for terminated or transferred employees.

Untimely removal of user access increases the risk of unauthorized transactions and access that can compromise the integrity of the University's internal systems, to include its financial system. The University should re-evaluate its network access termination process to ensure those charged with communicating employee terminations are notifying OIT and the eVA Security Officer in a timely manner.

Improve IT Server Maintenance and Management Controls

The University stores mission essential data on information technology (IT) systems running outdated software that its vendor no longer supports. We have communicated this information in detail to management 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 controls.

The Security Standard, Section SI-2-COV, prohibits agencies from using software that is no longer supported by its vendor.

According to the University, insufficient resources are the main contributor for non-compliance with the Security Standard. Additionally, the recent departure of personnel in six positions, which remain vacant, and consolidation of two additional positions, further increases the risk of delaying the University's ability to implement updated information security controls to safeguard mission essential data.

The University should dedicate the necessary resources to evaluate and implement the controls and recommendations discussed in the communication marked FOIAE in accordance with the Security Standard.

Improve IT Asset Surplus and Sanitization Controls

The University cannot verify whether it removes sensitive data from IT assets before transfer or disposal. The University also lacks documented IT asset sanitization procedures and a quality assurance process. We have communicated this information in detail to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls.

The Information Technology Resource Management Standard for Removal of Commonwealth Data from Electronic Media, also known as SEC 514-03 (Data Removal Standard), requires that organizations document and maintain records detailing the data removal process prior to the physical transfer or destruction of an IT asset. The Data Removal Standard also requires that organizations develop and implement a documented quality assurance process to test for effective data removal from electronic media.

According to the University, insufficient resources are the main contributor for non-compliance with the University's data sanitization policy and the Data Removal Standard. Additionally, the recent departure of personnel in six positions, which remain vacant, and consolidation of two additional positions, further increases the risk of delaying the University's ability to create robust IT asset data sanitization controls.

The University should dedicate the necessary resources to evaluate and implement the controls and recommendations discussed in the communication marked FOIAE in accordance with the Data Removal Standard.

Properly Reflect Enrollment Changes in the National Student Loan Data System

The Registrar did not ensure proper reporting of withdrawal statuses submitted to the National Student Loan Data System (NSLDS). The NSLDS incorrectly showed a status of enrolled for 11 out of 12, or 97 percent, of students who withdrew during the year.

Under provisions of the Higher Education Act, the U.S. Department of Education's (ED) regulations, and related guidance, schools are required to confirm and report the enrollment status of students who receive most types of federal student aid, including aid from the Federal Pell Grant Program, the Federal Family Education Loan (FFEL) Program, the William D. Ford Federal Direct Loan (Direct Loan) Program, and the Federal Perkins Loans (Perkins) Program. Further, institutions are required to review, update, and verify student enrollment status, effective dates of the enrollment status, and the anticipated completion dates that appear on the Enrollment Reporting roster file or on the Enrollment Maintenance page of the NSLDS Professional Access web site.

The University uses the National Student Clearinghouse (the Clearinghouse), a third-party servicer, to report status changes to the NSLDS. The University reports status changes to the Clearinghouse, which then identifies changes in status and reports those changes to lenders and guarantors, as well as NSLDS. Although the University relies on the Clearinghouse to submit enrollment changes to NSLDS, it is ultimately the responsibility of the University to submit accurate, complete, and timely information in accordance with Chapter Two of the NSLDS Enrollment Reporting Guide.

The Registrar submitted students' enrollment status within the prescribed timeframes, as required. However, because the Registrar relied on the Clearinghouse to capture and transfer the submitted data to NSLDS, and did not perform a due diligence review of the information transferred; the Registrar was not aware that the information in the students' files at NSLDS, remained incorrect.

A student's enrollment status determines eligibility for in-school status, loan deferment and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders. Enrollment reporting is not only critical for effective administration of the Title IV student loan programs, but is also required so that the U.S. Department of Education can engage in budgetary and policy analysis. Accordingly, we recommend that the Registrar contact the Clearinghouse to determine why information did not properly transfer to NSLDS. Additionally, the Registrar should implement review procedures to ensure NSLDS receives accurate information related to student enrollment reporting.

Promptly Remit Unclaimed Federal Student Aid Funds

The University did not return unclaimed federal student aid within 240 days to the U.S. Department of Education (ED). We identified 40 outstanding checks, dated February 15, 2013, through June 13, 2014, which the University may be required to return to ED. For a selection of two checks, totaling \$10,454, the outstanding check pertained to unclaimed federal student aid.

Code of Federal Regulations Section 34 CFR 668.164(h) requires the University to return unclaimed federal student aid to the federal program or lender within 240 days of issuing a check to the student.

University policy, "Escheating Unclaimed Property," provides for an adequate timeline for researching and applying outstanding student refund checks to outstanding student balances, escheating funds to the Commonwealth, or returning funds to ED. However, the University did not research and apply the appropriate treatment in a timely manner to the outstanding checks in question.

Not performing the required due diligence activities timely can result in noncompliance with federal student aid program requirements and could result in additional oversight over the University's cash management functions by ED. We recommend the University follow its "Escheating Unclaimed Property" policy to ensure compliance with federal program requirements.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 8, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Norfolk State 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 **Norfolk State University** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 8, 2015. 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 opinions 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 Controls for Deactivating System Access," "Improve IT Server Maintenance and Management Controls," "Improve IT Asset Surplus and Sanitization Controls," "Properly Reflect Enrollment Changes in the National Student Loan Data System" and "Promptly Remit Unclaimed Federal Student Aid Funds," 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 Controls for Deactivating System Access," "Improve IT Server Maintenance and Management Controls," "Improve IT Asset Surplus and Sanitization Controls," "Properly Reflect Enrollment Changes in the National Student Loan Data System" and "Promptly Remit Unclaimed Federal Student Aid Funds."

The University's Response to Findings

We discussed this report with management and 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 Controls for Deactivating System Access.” Accordingly, we included this finding 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

EMS/clj

October 7, 2015

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

Dear Ms. Mavredes:

Norfolk State University has reviewed the Financial Internal Control and Compliance Findings and Recommendations provided by the Auditor of Public Accounts for the fiscal year ending June 30, 2015 and is in agreement, in principle, with all of the findings.

Attached for your consideration is a brief update as to where the campus is with respect to 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 Norfolk State University, please extend my appreciation to all of your staff for their professional audit work and recommendations.

Sincerely,



Mr. Gerald Ellsworth Hunter
Vice President for Finance and Administration

Cc: Mr. Eddie N. Moore Jr., President/CEO
Dr. Sandra J. DeLoatch, Provost and Vice President for Academic Affairs
Ms. Karla Amaya Gordon, AVP/University Controller
Mr. Ernest Ellis, University Internal Auditor

FY 2015 - Financial Internal Control & Compliance Findings

Improve Controls for Deactivating System Access

The University understands the importance of timely termination and the degree of risk involved when access is not terminated timely. The Office of Human Resources has re-evaluated the existing process and developed an improved procedure for ensuring that any employee separated from Norfolk State University will have all access to all University systems terminated in a timely manner. Updated procedures have been documented and provided to the auditors that outline the employee separation and clearance procedure for the University. Human Resources is in the process of testing the updated electronic clearance process and will begin mandatory training for supervisors and managers by October 30, 2015. The updated electronic process improves the workflow for timely notification which includes notification to the Office of Information Technology (OIT). Additionally, a monthly termination/separation report will be generated by Human Resources and forwarded to the OIT security team. To ensure compliance at the highest organizational level, the report will be monitored through the University monthly compliance reporting process housed in the Office of the President.

The eVA Security Officer is a part of OIT and receives termination notification through the electronic clearance process. It is important to note that none of the six users noted in the finding had eVA activity after their termination from the University. The University has two control points that mitigates the risk in this area, (1) every departmental eVA user has a supervisor entered into the eVA BuysenseOrg (BSO). Even if a terminated employee entered a requisition in eVA, no order would be issued without their supervisor's approval; and (2) a Contracts Officer in procurement also has to approve each departmental eVA order before it is issued.

Improve IT Server Maintenance and Management Controls

At this time, the university is continuing the project to upgrade IT systems running on outdated software. The update will be completed by June 30, 2016.

Campus administration recognizes the personnel losses recently experienced by the Office of Information Technology and is finalizing plans to close the gap in service that is indicated in the finding.

Improve IT Asset Surplus and Sanitation Controls

At this time, the University has implemented asset sanitization tracking within the Client Services ticketing system used by the Office of Information Technology (OIT). The additional tracking includes dates, asset information, serial numbers of devices and assigned personnel. The university has begun using labels based on the certification tag template provided within the SEC514-03 to affix to the systems prior to disposal. Quality assurance testing will be conducted as per SEC514-03.

The University has reviewed and is finalizing revisions to the procedures and form used for transfer and surplus of assets. We have included additional information and require certification tags and signatures from OIT personnel before an asset is transferred or removed by the warehouse.

In addition, the university will continue to utilize as needed one of the state vendors authorized by the Commonwealth's Department of General Services to handle e-waste recycling and data destruction of agency assets.

Properly Reflect Enrollment Changes in the National Student Loan Data System

Effective immediately, the following changes have been implemented to the procedures the university has in place for processing Enrollment Verification reporting to the National Student Clearinghouse:

1. When the Enrollment Verification Coordinator receives and processes a withdrawal form, it will be logged into the National Student Clearinghouse website and an update will be made to the enrollment status to reflect the withdrawn status and date of withdrawal.
2. The National Student Clearinghouse file is transmitted every thirty (30) days. The Office Manager will run a report of students that withdrew from the University to validate that their statuses have populated correctly within the National Student Clearinghouse file before sending.
3. The Registrar will complete monthly checks in the National Student Clearinghouse website to make sure that the withdrawn statuses have populated correctly on the students who have withdrawn from the University. The Registrar will also meet with the Default Manager, who handles NSLDS, to make sure the withdrawn students are correctly reflected in National Student Loan Data System (NSLDS).

Promptly Remit Unclaimed Financial Student Aid Funds

Compliance with all federal student aid program requirements is important to the University. Steps to resolve the exceptions noted in this finding have begun and we target to have the transactions needed to resolve the exceptions completed by October 30, 2015. Procedures have been put in place to ensure all outstanding checks are researched timely and federal student aid funds are returned within the 240 day requirement when not cashed by the student. The monthly outstanding check listing for the local bank accounts will be provided to Student Accounts. Outstanding checks related to students will be reviewed to determine if funds are related to federal student aid. The respective student's account will be reviewed for any checks outstanding for more than 90 days to determine if the outstanding check amount can be applied to the student's account to cover outstanding balances. If funds are determined to be related to federal student aid and the student does not have any outstanding balances, the check will be sent back to the funding agency. On a quarterly basis, the University Bursar will provide the University Controller with a listing of funds sent back to federal programs. The frequency of the University's due diligence in this regard will aid in minimizing the number of outstanding checks.

NORFOLK STATE UNIVERSITY

Norfolk, Virginia

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Represents Board of Visitors and University Administrators as of June 30, 2015

*Vice Rector thru May 8, 2015