



THE COLLEGE OF
WILLIAM AND MARY IN VIRGINIA
VIRGINIA INSTITUTE OF MARINE SCIENCE
RICHARD BLAND COLLEGE

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 consolidated financial statements of The College of William and Mary in Virginia, as of and for the year ended June 30, 2018, and issued our report thereon, dated May 30, 2019. The consolidated financial statements of The College of William and Mary in Virginia include the financial activity of The College of William & Mary in Virginia (William & Mary), Virginia Institute of Marine Science, and Richard Bland College (Richard Bland), which report to the Board of Visitors of The College of William and Mary in Virginia. Our report, included in the basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at William & Mary's website at www.wm.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;
- internal control deficiencies that we consider to be material weaknesses in the internal control over financial reporting at Richard Bland;
- additional internal control findings at William & Mary and Richard Bland requiring management's attention; however, we do not consider them to be material weaknesses; and
- instances of noncompliance or other matters at Richard Bland required to be reported under Government Auditing Standards.

–TABLE OF CONTENTS–

Pages

AUDIT SUMMARY

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

1 - 13

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

14 – 16

WILLIAM & MARY AND RICHARD BLAND RESPONSES

17-19

WILLIAM & MARY AND RICHARD BLAND OFFICIALS

20

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

WILLIAM & MARY

Improve Oversight over IT Third-Party Service Providers

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

William & Mary is not gaining assurance that all information technology (IT) third-party service providers (Providers) with access to its data have effective operating controls. William & Mary utilizes several Providers to perform tasks or functions on its behalf, such as the Online Learning Center. Providers commonly use subservice organizations to provide additional services, such as data center operations. Currently, William & Mary gains assurance over data center operations for Providers, but is not gaining independent assurance over the Provider itself or any other subservice organizations of the Provider. Obtaining assurance over the Provider's controls and any other relevant subservice organizations is critical in ensuring effective operating controls over confidentiality, integrity, and availability of William & Mary's data.

William & Mary has a process to receive a security assessment questionnaire from potential Providers during the request for proposal and annually thereafter once the Provider is under contract. William & Mary uses the questionnaire to understand the Provider's security controls, determine if the organization will access its data, and if it contracts with a subservice organization for data center operations. After reviewing the Provider's responses, William & Mary requests independent audit assurance, such as a Service Organization Control (SOC) report, from subservice organizations responsible for data center operations to ensure those organizations have adequate security controls that are operating effectively. While developing the oversight process, William & Mary did not include a requirement to obtain independent assurance from Providers due to previous unsuccessful attempts to obtain this information. William & Mary IT personnel made the decision that obtaining assurance from the subservice organizations responsible for data center operations was sufficient and managed the Providers according to its oversight process.

William & Mary bases its IT security program on the International Organization for Standardization Standard 27002:2013 (William & Mary's Security Standard). William and Mary's Security Standard, section 15.1 – Information Security in Supplier Relationships, requires organizations to define the type of information access that William & Mary will allow to different types of suppliers, and monitor and control that access. Additionally, section 15.1 requires organizations to establish supplier agreements that address all relevant IT security requirements where a supplier may access, process, store, communicate, or provide IT infrastructure components. Specifically, the agreements should define the supplier's obligation to periodically deliver an independent report on the effectiveness of controls and agreement on timely correction of relevant issues raised in the report.

By not obtaining and evaluating independent assurance for all Providers, William & Mary cannot validate the effectiveness of Provider IT controls in protecting sensitive data. William & Mary should revise its Provider oversight policy and process to obtain independent assurance over all Providers and relevant subservice organizations that access its data, not just data center Providers. Maintaining oversight of all Providers will ensure the confidentiality, integrity, and availability of sensitive and mission-critical data.

RICHARD BLAND

Improve the Financial Reporting Process

Type: Internal Control

Severity: Material Weakness

Repeat: Yes (first issued in fiscal year 2015)

Richard Bland does not have adequate internal controls over its financial reporting process. Similar to previous years, numerous adjustments and errors to the financial statements indicate that the current process for compiling the financial statements does not prevent, or detect and correct on a timely basis, material misstatements to the financial statements.

During our review of financial information submitted by Richard Bland to William & Mary for consolidation in the combined financial statements, we found:

- Richard Bland does not use a fixed asset tracking system. All fixed assets are tracked using spreadsheets. As a result of poor tracking during previous fiscal years, the capital asset footnote information reported to William & Mary contained unsupported amounts to calculate the correct ending balances.
- Richard Bland wrote off \$154,447 of accounts receivable that its Finance department could not identify or potentially miscoded.
- Richard Bland does not have documentation to support the use of a 10% allowance for doubtful accounts calculation.
- Richard Bland did not report scholarship allowances in accordance with the National Association of College and University Business Officers' (NACUBO) guidance.
- Richard Bland incorrectly calculated an adjusting journal entry to reclassify a portion of four salaries and the entirety of one salary to a different program code, resulting in a \$149,355 adjustment to the financial statements.
- Richard Bland did not properly accrue accounts payable for three of eleven vouchers (27%) tested that it paid after year-end, resulting in the recording of expenses in the incorrect fiscal year. These exceptions related to a lack of policies and procedures over accounts payable

and the year-end accrual process, as well as improper recording of the goods and services receipt date, which is a critical component of the accounts payable accrual process.

- Richard Bland could not provide supporting documentation for some amounts in ten journal entries posted directly in its financial reporting and accounting system during the fiscal year. Additionally, we could not determine the reasonableness of eleven entries, eight of which were due to a lack of supporting documentation.
- Richard Bland incorrectly posted a journal entry to a loss account rather than depreciation expense when reversing a previously recorded incorrect entry, resulting in a \$58,975 adjustment to the financial statements.
- Richard Bland had no policies or procedures for the year-end journal entry review process.
- Richard Bland improperly calculated some amounts in four of the 22 material year-end adjusting journal entries tested (18%). Additionally, Richard Bland could not provide supporting documentation for all amounts in four year-end adjusting journal entries (18%). Though the improperly calculated and unsupported amounts within the material journal entries are immaterial, they represent a control weakness in the financial reporting process.
- Richard Bland posted an additional 22 adjustments to the financial statements after submission of the financial statements to William & Mary for consolidation in the group financial statements. Eighteen of these adjustments were posted during the course of the audit, eleven of which resulted from or required changes based on audit inquiries, including:
 - Recording the technology portion of the mandatory fees as auxiliary revenue rather than tuition and fees revenue, resulting in a \$147,559 adjustment.
 - Incorrectly recording cash transfers as other non-operating revenue during the fiscal year and subsequently recorded bad debt expense to balance the financial statements, resulting in an adjustment of \$451,790 after year-end to reduce other non-operating revenue and bad debt expense.
 - Not reversing the non-current portion of the prior year leave balance accrual, resulting in a \$144,103 adjustment.
 - Not reversing all fiscal year 2017 write-offs that posted in its financial reporting and accounting system during fiscal year 2018, resulting in an adjusting journal entry of \$307,325.
 - Recording the recovery of the privately funded portion of the President's salary to the incorrect program code, resulting in an adjustment of \$145,822.

- Incorrectly reversing fiscal year 2017 deferred revenue, resulting in a \$118,676 adjustment to tuition and fees revenue.
- Reporting Direct Loan revenue and other non-Pell Grant revenue as Pell Grant revenue, resulting in an adjustment of \$351,568.
- Including other operating revenue during the fiscal year for a \$110,000 cash transfer and subsequently recorded bad debt expense to balance the financial statements, resulting in an adjustment of \$110,000 after year-end to reduce other operating revenue and bad debt expense.

Management is responsible for designing and maintaining a system of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement in accordance with generally accepted accounting principles. A lack of formalized procedures, significant personnel turnover in financial reporting and financial operations during the fiscal year, insufficient and untimely reconciliation of accounts and supporting systems to the financial reporting and accounting system, lack of attention to detail and limited knowledge of financial reporting processes during portions of the fiscal year led to the issues identified. These weaknesses have increased the risk of misstatement and resulted in inaccuracies in the current year financial statements. Inaccurate financial information can affect long-term planning and the decisions of those individuals or institutions that rely on such information.

Management should develop comprehensive policies and procedures that enable current staff to perform job duties consistently and minimize the need for correcting entries and unsupported figures to balance accounts, and provide for a sufficient audit trail that supports the financial statements. Management should also evaluate its review and monitoring processes that help to prevent or detect misstatements in accounting and reporting and the training needs of staff participating in the financial reporting process to increase expertise and knowledge of governmental accounting standards and best practices in financial reporting relevant to public colleges and universities.

Strengthen Internal Controls over Capital Assets

Type: Internal Control

Severity: Material Weakness

Repeat: Yes (first issued in fiscal year 2016)

Richard Bland does not have sufficient and accurate policies and procedures for tracking, recording, and reporting capital assets.

Construction-in-Progress

Richard Bland is not adequately tracking construction-in-progress (CIP). To obtain CIP expenditures for the year, Richard Bland runs a report detailing all current year expenditure activity for active projects; however, this report is not reconciled with any other construction project information. As a result, there is increased risk that the total costs of the CIP projects will be inaccurate, resulting in

the incorrect recordation of the assets on the Statement of Net Position. During fiscal year 2018, CIP was understated by \$1,473,965 due to Richard Bland's manual calculation of CIP using vendor invoices at year-end.

- Richard Bland properly recorded three vouchers for CIP expenses, summing to \$1,171,538, in its accounting and financial reporting system and the Commonwealth's accounting and financial reporting system. However, Richard Bland later voided these vouchers in its accounting and financial reporting system due to a bank mapping issue, but never re-recorded the vouchers in the system. As a result of not recording the \$1,171,538 of expenses in its accounting and financial reporting system, and untimely reconciliation of accounts, Richard Bland posted an adjustment to bad debt expense at fiscal year end when performing its year-end cash reconciliation. Upon realizing the adjustment to bad debt expense was primarily a result of not recording \$1.17 million in construction payments in its accounting and financial reporting system, Richard Bland posted two audit adjustments to remove the payments from bad debt expense and record them as CIP.
- Richard Bland recorded \$302,427 for construction-in-progress as a fiscal year 2019 expense that should have been accrued to fiscal year 2018 CIP. The improper use of the goods and services receipt date in the Commonwealth's accounting and financial reporting system led to this expense not being accrued to fiscal year 2018.

Equipment

Richard Bland is not adequately tracking equipment assets. Richard Bland is in the process of implementing the fixed asset module of its financial accounting and reporting system in order to better manage fixed assets, but during fiscal year 2018, Richard Bland manually tracked equipment using a spreadsheet tracking process. Due to significant staff turnover and unclarified responsibilities, there were no Finance department personnel assigned to track equipment purchases and no process in place to identify and track newly acquired capital assets. Richard Bland evaluated all fiscal year 2018 purchases and capitalized any necessary purchases at year-end. Weaknesses in internal controls surrounding the tracking of equipment assets significantly increase the risk that capital assets will be misstated in Richard Bland's financial statements. During our review of the process for tracking and recording equipment, we noted the following:

- Richard Bland could not provide evidence that five out of twenty (25%) equipment assets selected for testwork physically existed. Per Richard Bland, it replaced two of the assets when they previously failed, but Richard Bland neither removed the disposed assets from the equipment listing nor added the new assets to the equipment listing. Three of the assets tested had inaccurate or nonexistent asset tags, and therefore, we could not verify the physical existence of the assets on the equipment listing.
- Including the five exceptions listed above, Richard Bland did not properly tag seven out of twenty (35%) equipment assets selected for testwork. While the lack of an asset tag does not have a direct financial impact, it could lead to a potential overstatement of equipment if

Richard Bland disposes of an asset lacking a tag and does not properly remove the asset from the accounting records.

Additionally, Richard Bland posted several adjustments to agree the ending balances of equipment and related accumulated depreciation to the equipment inventory, but could not provide support for some of the adjustments. Though the unsupported amounts are immaterial, they represent a control weakness in the recordation of equipment assets.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual topic 30000 discusses Fixed Asset and Lease Accounting. Richard Bland should become familiar with this topic and all of the requirements therein. The CAPP Manual discusses numerous requirements relating to Fixed Assets to which Richard Bland does not currently adhere, including:

- Recording CIP until a project is reasonably complete and then transferring the total capitalizable cost to the appropriate capital asset account.
- Reviewing the internal records for potential CIP expenditures and reconciling the records quarterly.
- Maintaining sufficient internal documentation to support changes made to CIP balances and entering them into a comprehensive spreadsheet. The Appendix of CAPP Manual topic 30310 includes a CIP tracking spreadsheet for agency use.
- Performing a physical inventory of capital assets at least biannually in order to safeguard assets and maintain fiscal accountability, though the CAPP manual recommends annual inventory for equipment inventories.
- Designating a unique identification number for all assets acquired and tagging the asset at the time of physical receipt, or as soon thereafter as possible.
- Maintaining internal controls and an internal control environment that ensures the proper control and safeguarding of all agency-owned or otherwise utilized capital assets.
- Establishing and publishing agency internal policy and procedures regarding stewardship over capital assets.

The deficiencies noted are primarily the result of outdated policies and procedures, which Richard Bland developed prior to abandoning the fixed asset module of its financial accounting and reporting system and replacing it with a spreadsheet tracking process, as well as a lack of assigned personnel responsible for tracking asset additions, capitalization, inventory and disposals during fiscal year 2018.

Richard Bland should strengthen its internal controls surrounding the tracking and recording of capital assets and continue with its plan to implement the fixed asset module of its financial accounting and reporting system. Richard Bland should begin maintaining a CIP schedule that tracks CIP projects from start to finish and Finance should work with the Facilities Department to ensure proper tracking of projects. Further, Richard Bland should assign personnel the responsibility of identifying and tracking assets that meet the criteria for capitalization and properly tag assets as soon as practicable. In addition, Richard Bland should implement a schedule for properly completing an inventory of fixed assets to ensure that assets continue to have legible tags that allow for proper tracking and removal from the fixed assets inventory listing following disposal. Finally, Richard Bland should develop policies and procedures surrounding the tracking and recording of capital assets such that when turnover occurs or responsible parties are unavailable, adequate tracking and recording of capital assets can continue.

Improve Controls Surrounding the Reconciliation between Richard Bland's and the Commonwealth's Accounting and Financial Reporting Systems

Type: Internal Control

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2017)

Prior Title: Improve Controls Surrounding the Reconciliation between the College's and the Commonwealth's Accounting and Financial Reporting Systems

Richard Bland did not adequately reconcile its accounting and financial reporting system with the Commonwealth's accounting and financial reporting system during fiscal year 2018. Finance could not provide documentation showing the completion of all required monthly reconciliations. Further, Richard Bland does not have approved policies and procedures surrounding the reconciliation between Richard Bland's and the Commonwealth's accounting and financial reporting systems.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905 states that agencies must document the reconciliation between their accounting and financial reporting system and the Commonwealth's accounting and financial reporting systems in an agency-standardized format and maintain the documentation (including source documentation) for inspection by outside parties. A discrepancy between an agency's and the Commonwealth's accounting and financial reporting systems could lead to a misstatement in the financial statements. In addition, the CAPP Manual indicates all agencies must have detailed written procedures for meeting all reconciliation requirements. While the CAPP Manual provides guidance to agencies, it does not eliminate the need and requirement for Richard Bland to publish its own internal policies and procedures that are approved in writing by management. The lack of complete and up-to-date internal policies and procedures customized to reflect Richard Bland's staffing, organization, and operating procedures reflects inadequate internal control and increases the likelihood that the staff will perform reconciliations improperly or not at all.

Finance personnel in place during fiscal year 2018 lacked an understanding of the reconciliation requirements set forth by the CAPP Manual contributing to the deficiencies in the reconciliation process. Additionally, the lack of detailed policies and procedures prevented Finance from ensuring reconciliations were performed accurately and in accordance with the CAPP Manual. Finance should continue to gain an understanding of the CAPP Manual's reconciliation requirements and establish

written policies and procedures to ensure it performs adequate reconciliations between its accounting and financial reporting system and the Commonwealth's accounting and financial reporting system. At a minimum, the policies and procedures should contain information on who is responsible for performing and reviewing the reconciliation, when staff should perform the reconciliation process, and how staff should perform the reconciliation.

Improve Oversight over IT Third-Party Service Providers

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Richard Bland does not have a process to gain assurance that third party information technology (IT) service providers (Providers) have adequate security controls to protect its sensitive data. Providers are entities that perform tasks or functions on behalf of Richard Bland and the Commonwealth. Richard Bland relies on several Providers for mission-critical business functions, such as its Online Learning Center and Point of Sales systems.

Richard Bland plans to transition the oversight of its Providers to the Enterprise Cloud Oversight Services (ECOS) that the Virginia Information Technologies Agency (VITA) provides when the Providers' contracts are up for renewal. ECOS provides oversight and gains assurance over Providers' operating controls. Richard Bland is utilizing ECOS for one sensitive system, but the full transition to ECOS may take several years.

The Commonwealth's Information Security Standard, SEC501 (Richard Bland's Security Standard), section 1.1 states management remains accountable for maintaining compliance with Richard Bland's Security Standard through documented agreements with Providers and oversight of services provided. Additionally, the Commonwealth's Hosted Environment Information Security Standard (Richard Bland's Hosted Security Standard), section SA-9-COV-3, requires Richard Bland to perform a security audit or review an audit report of a Provider's environment on an annual basis.

Without a process to gain assurance over Providers' operating controls, Richard Bland cannot validate that those Providers have effective security controls for protecting sensitive data. Richard Bland's lack of IT personnel resources, and corresponding constraints on their time, is a primary contributor for not having a process to gain assurance over Providers.

Richard Bland should continue transitioning oversight of its Providers to ECOS and develop a process to gain assurance over Providers' control environments until it transitions all Providers to ECOS. Once Richard Bland transitions its Providers to ECOS, it should work with VITA to confirm the Providers meet the requirements in Richard Bland's Security Standard and Richard Bland's Hosted Security Standard. Gaining sufficient assurance over Provider security controls will help to ensure the confidentiality, integrity, and availability of sensitive data.

Perform IT Security Audits over Sensitive Systems

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Richard Bland is not performing IT security audits on its sensitive IT systems in accordance with the Commonwealth's IT Security Audit Standard, SEC502 (Richard Bland's IT Audit Standard). Richard Bland's Security Standard requires IT security audits for sensitive systems in accordance with Richard Bland's IT Audit Standard.

Richard Bland performed IT security audits for several sensitive systems in 2017 and 2018 and sent them to the Virginia Information Technologies Agency (VITA) to meet the requirements in Richard Bland's IT Audit Standard. However, an IT employee with responsibility for operational duties and management of Richard Bland's information security program performed the IT security audits, creating a conflict of interest and violating independence requirements. Richard Bland's IT Audit Standard states all IT audits must follow Generally Accepted Government Auditing Standards (GAGAS Yellow Book) and Institute of Internal Auditors' Standards (IIA Red Book) to conduct audits without any conflicts of interest and meet certain independence requirements. When VITA became aware of this information, it notified Richard Bland that it would no longer accept IT audit reports unless the reports comply with all applicable requirements in Richard Bland's IT Audit Standard.

William & Mary's Internal Audit charter states that the Internal Audit department will perform audits over William & Mary and Richard Bland; however, due to a lack of resources, William & Mary's Internal Audit department has not performed IT security audits for Richard Bland. Additionally, Richard Bland lacks the financial resources to contract IT security audits over its sensitive systems to a third party. By not conducting the IT audits with an independent auditor, Richard Bland cannot provide an unbiased opinion as to whether the operating controls in its IT environment are working effectively to protect the confidentiality, integrity, and availability of its data.

Richard Bland and William & Mary should evaluate potential options and develop a plan for conducting IT security audits for Richard Bland's sensitive systems that comply with Richard Bland's IT Audit Standard. Conducting IT security audits that comply with Richard Bland's IT Audit Standard will help to ensure the confidentiality, integrity, and availability of sensitive and mission critical data.

Improve Virtual Private Network Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Richard Bland does not implement certain security controls for its Virtual Private Network (VPN) in accordance with Richard Bland's Security Standard, and industry best practices. Richard Bland's faculty and staff use the VPN to connect remotely to its internal network and access critical and sensitive information technology resources. Richard Bland's Security Standard requires certain controls over the VPN to ensure the protection of remotely accessed IT resources.

We identified and communicated the specific control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

Richard Bland should dedicate the necessary resources to implement the security controls for the VPN as communicated in the FOIAE recommendation that meet the requirements of Richard Bland's Security Standard and industry best practices. Doing this will help maintain the confidentiality, integrity, and availability of sensitive and mission critical data.

Improve Change Management Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Richard Bland does not have sufficient processes to manage configuration changes to its information technology (IT) environment in accordance with Richard Bland's Security Standard. Change management is a key control to evaluate, approve, and verify configuration changes to security components.

We identified and communicated the specific control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

Richard Bland should dedicate the necessary resources to implement the controls communicated in the FOIAE document. Improving the management of changes in Richard Bland's IT environment will decrease the risk of unauthorized alterations and help maintain the confidentiality, integrity, and availability of sensitive and mission critical data.

Strengthen Internal Controls over Federal Cash Management

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2017)

Richard Bland does not have adequate internal controls to ensure timely disbursement of federal funds in accordance with federal regulations. Between July 2017 and June 2018, Richard Bland received approximately \$5.5 million from the U.S. Department of Education (Education) for federal financial assistance from the Pell Grant and Direct Loan Programs. For six out of six (100%) federal drawdowns tested, Richard Bland did not maintain adequate documentation to support that they disbursed student federal financial aid to student accounts timely. In addition, Richard Bland could not provide documentation to show that they performed federal Pell Grant or Direct Loan reconciliations throughout fiscal year 2018.

In accordance with 34 CFR §668.162, an institution must submit a request for funds that does not exceed the amount of the disbursements the institution has made to students or parents included in that request. As part of that request, an institution must identify the specific students or parents included in the drawdown request. Additionally, per 34 CFR §685.300, on a monthly basis, institutions must reconcile institutional records with Direct Loan funds received from the Department of Education and Direct Loan disbursement records submitted to and accepted by the Department of Education. While there is not a specific regulatory requirements for a monthly reconciliation of Pell Grant funds, Chapter 5 of the Department of Education's financial aid handbook indicates that at a minimum institutions should reconcile its records monthly.

The Financial Aid Office does not have adequate policies and procedures in place for ensuring timely disbursement of federal financial assistance. According to management, the progress of implementing any improvements related to federal cash management was delayed due to significant turnover, including various temporary and interim personnel, in the finance department during the course of the fiscal year.

Richard Bland should update its policies and procedures to include all provisions covered by the applicable regulations and best practices included in the Department of Education's student financial aid handbook. By doing so, Richard Bland can ensure timely disbursement of federal funds and compliance with federal cash management regulations.

Strengthen Policies and Procedures over Employment Eligibility Documentation

Type: Compliance

Severity: Not Applicable

Repeat: No

Richard Bland's Human Resources (Human Resources) is not properly reviewing documentation supporting determination of employment eligibility. Of the seven employees tested:

- One employee (14%) incorrectly dated Form I-9 with his date of birth rather than the first day of employment;
- Human Resources did not agree the employee information from section one to section two for one employee (14%); and
- Human resources did not properly complete section two of the form for two employees (29%).

The Immigration Reform and Control Act of 1986 requires that all employees hired after November 6, 1986 have a Form I-9 completed to verify both employment eligibility and identity. This requirement ensures that employers hire only individuals who may legally work in the United States. Per the Handbook for Employers M-274, issued by the U.S Citizenship and Immigration Services (M-274), employers must review and ensure that employees fully and properly complete section one of the form. Additionally, per M-274, employers must receive and review original documents that show employee

identity and employment authorization. The employer must then sign to indicate that receipt and review of these documents occurred within three days of the employee's start date. Not complying with federal and state statutes could result in substantial civil and/or criminal penalties, including monetary fines, and debarment from government contracts.

Human Resources operates with a small staff and does not currently have written policies and procedures or a sufficient review process over employment eligibility documentation. Human Resources should develop policies and procedures for determination of employment eligibility and communicate these policies and procedures to relevant employees. These procedures should include a review over completed Form I-9's to ensure accurate completion and compliance with federal requirements.

Strengthen Internal Controls for Monitoring Financial Aid Third-Party Servicer

Type: Compliance

Severity: Not Applicable

Repeat: Partial (first issued in fiscal year 2017, with significant progress in this area)

Richard Bland could not provide evidence to show it obtained a Certification By Lower Tier Contractor from its third-party financial aid servicer timely. The U.S. Department of Education defines third-party servicers as entities or individuals that administer any aspect of an institution's participation in Title IV programs, including, but not limited to, services and functions necessary for the institution to remain eligible to participate in Title IV programs. The Certification By Lower Tier Contractor is an attachment in the U.S. Department of Education's Program Participation Agreement, which must be submitted and approved for schools to participate in Title IV Federal Student Aid programs. The Certification By Lower Tier Contractor certifies that the federal government has not communicated to the third party that it has been debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in transactions with any federal department or agency.

In October 2016, Richard Bland entered into a contractual agreement with a third-party servicer to manage its verification process for student financial aid programs. Richard Bland management stated that it obtained a Certification By Lower Tier Contractor during March 2018, but the form was misplaced and could not be located. As a result, Richard Bland did not obtain a signed Certification By Lower Tier Contractor from the servicer until January 2019. During the 2017-2018 award year, the third-party servicer conducted approximately 239 verification reviews of students receiving federal financial assistance.

According to 34 CFR §668.82, when a third-party servicer contracts with an institution, it acts in the nature of a fiduciary in the administration of the Title IV and Higher Education Act (HEA) programs, and must at all times act with the competency and integrity necessary to qualify as a fiduciary. In addition, 34 CFR §668.14 states that by entering into a program participation agreement, an institution agrees that it will comply with all statutory provisions of or applicable to Title IV of the HEA. Further, U.S. Department of Education's Dear Colleague Letter GEN 16-15 states that an institution is required to obtain a signed Certification By Lower Tier Contractor form from all of its third-party servicers and retain a copy of the form in the institution's files. Without performing due diligence by obtaining a Certification By Lower Tier Contractor, Richard Bland cannot assure its third-party servicer is complying with the

applicable laws and regulations and increases the risk of Richard Bland being found financially liable for any wrongdoings of the third-party servicer.

Richard Bland should comply with federal compliance regulations concerning third-party servicers and follow policy as stated in its Student Financial Aid Policies and Procedures Manual.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 30, 2019

The Honorable Ralph S. Northam
Governor of Virginia

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

Board of Visitors
The College of William and Mary in Virginia

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 College of William and Mary in Virginia** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise The College of William and Mary in Virginia's basic financial statements and have issued our report thereon dated May 30, 2019. 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, 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 College of William and Mary in Virginia'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 College of William and Mary in Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The College of William and Mary in Virginia'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 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. However, as described in the section entitled “Internal Control and Compliance Findings and Recommendations – William & Mary” and “Internal Control and Compliance Findings and Recommendations – Richard Bland,” we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies entitled “Improve the Financial Reporting Process” and “Strengthen Internal Controls over Capital Assets,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations – Richard Bland,” to be material weaknesses.

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. We consider the deficiency entitled “Improve Oversight over IT Third-Party Service Providers,” which is described in the section titled “Internal Control and Compliance Findings and Recommendations – William & Mary,” and the deficiencies entitled “Improve Controls Surrounding the Reconciliation between Richard Bland’s and the Commonwealth’s Accounting and Financial Reporting Systems,” “Improve Oversight over IT Third-Party Service Providers,” “Perform IT Security Audits over Sensitive Systems,” “Improve Virtual Private Network Security,” “Improve Change Management Process,” and “Strengthen Internal Controls over Federal Cash Management,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations – Richard Bland” to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The College of William and Mary in Virginia’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 – William & Mary” in the finding entitled “Improve Oversight over IT Third-Party Service Providers,” and in the section titled “Internal Control and Compliance Findings and Recommendations – Richard Bland” in the findings entitled “Improve Oversight over IT Third-Party

Service Providers,” “Perform IT Security Audits over Sensitive Systems,” “Improve Virtual Private Network Security,” “Improve Change Management Process,” “Strengthen Internal Controls over Federal Cash Management,” “Strengthen Policies and Procedures over Employment Eligibility Documentation” and “Strengthen Internal Controls for Monitoring Financial Aid Third-Party Servicer.”

William & Mary and Richard Bland’s Responses to Findings

We discussed this report with management at an exit conference held on April 22, 2019. The responses to the findings identified in our audit are described in the accompanying sections titled “William & Mary Response” and “Richard Bland Response.” The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Status of Prior Findings

Richard Bland has not taken adequate corrective action with respect to the previously reported findings “Improve the Financial Reporting Process,” “Strengthen Internal Controls over Capital Assets,” “Improve Controls Surrounding the Reconciliation between the College’s and the Commonwealth’s Accounting and Financial Reporting Systems,” “Develop Procedures for Proper Accrual of Accounts Payable,” and “Strengthen Internal Controls over Federal Cash Management.” Richard Bland has partially corrected the previously reported finding “Strengthen Internal Controls for Monitoring Financial Aid Third-Party Servicer.” Accordingly, we included these findings in the section entitled “Internal Control and Compliance Findings and Recommendations – Richard Bland.” William & Mary and Richard Bland have 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 entities internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entities internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj



WILLIAM & MARY

CHARTERED 1693

OFFICE OF FINANCE AND ADMINISTRATION

May 29, 2019

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

Dear Ms. Mavredes:

After reviewing William & Mary's (university) fiscal year 2018 audit finding and recommendation, I hereby provide the following response for inclusion in the audit report:

Improve Oversight over IT Third-Party Service Providers

Management agrees with the auditor's finding relating to Third Party Service Providers. The university will review the existing Provider Oversight Policy and update to ensure confidentiality, integrity and availability of sensitive and mission-critical data.

Please contact me should you have any questions.

Sincerely,

Samuel E. Jones
Senior Vice President for Finance and Administration

cc: Amy S. Sebring
Kent B. Erdahl
Courtney Carpenter
Melanie T. O'Dell



Richard Bland College of WILLIAM & MARY

Office of Finance

June 13, 2019

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

Dear Ms. Mavredes,

Richard Bland College (RBC) has reviewed the Internal Control and Compliance Findings and Recommendations provided by the Auditor of Public Accounts for the fiscal year ended June 30, 2018, and agrees with the findings submitted.

RBC has hired competent and experienced staff to address the shortcomings in financial processes and financial reporting. The new staff have specific experience in the overall areas of weakness specified in the report, including the financial reporting process, reconciliations, and fixed assets. The additional funding provided by the State for Fiscal Year 2019 has allowed RBC to add sufficient layers for review and approval of transactions, reports, and schedules. RBC has already put in place detailed reconciliations to ensure that the College's financial system aligns and agrees with the Commonwealth's system. In addition, we will perform a comprehensive review of transactional detail and system coding to ensure that the data is not only reconciled but also complete, accurate, and reasonable. RBC is in the process of implementing a detailed year-end checklist to prevent the oversight of necessary entries and will record as many of the entries as possible before the system is closed to greatly cut down the number of adjusting journal entries. New trial balance workbooks to more clearly track financial statement data and provide a better audit trail are also being implemented. RBC is in the process of testing Banner Fixed Assets, which will be fully implemented by June 30, 2019, for use with fixed assets transactions in lieu of using spreadsheets. Additional reconciliations and schedules to improve the tracking and accounting for capital assets have been implemented. As finance processes are undergoing improvements, policies and detailed procedures are being updated/added.

Over the past year, RBC has been working with the Enterprise Cloud Oversight Service (ECOS) department of the Virginia Information Technologies Agency (VITA) on provider compliance. Additional funding from the State in FY20 will assist with maintaining the recommended processes. RBC has implemented the recommended security controls for its Virtual Private Network (VPN); is currently working with Internal Audit to obtain the necessary IT security audits; and will dedicate the necessary resources to implement the recommended controls to improve the change management process.

11301 Johnson Road, South Prince George, Virginia 23805
804-862-6100 | RBC.edu

RBC has created a post-completion I-9 review checklist to identify and correct errors. Through diligent and proper use of the review checklist, Human Resources will ensure future compliance with federal employment eligibility verification requirements. The Financial Aid Office and Finance Office have collaborated to improve controls over Federal cash management. This includes streamlining the process of retrieving data to expedite the request for funds, including detailed support for the drawdowns, implementing a reconciliation, and improving related policies and procedures. RBC has also implemented a new process to ensure that updated signed documents from third-party servicers are completed, received timely to RBC each year, and retained.

On behalf of Richard Bland College of William & Mary, I wish to thank you and your staff for your role in helping to ensure RBC's compliance and continuous improvement. Please contact me should you have any questions.

Sincerely,



Paul S. Edwards
Chief Business Officer

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
RICHARD BLAND COLLEGE

As of June 30, 2018

BOARD OF VISITORS*

John E. Littel, Rector
William H. Payne, II, Vice Rector
Sue H. Gerdelman, Secretary

Mirza Baig	Anne Leigh Kerr
Victor K. Branch	Lisa E. Roday
Warren W. Buck, III	J.E. Lincoln Saunders
S. Douglas Bunch	Karen Kennedy Schultz
Thomas R. Frantz	Todd A. Stottlemeyer
James A. Hixon	H. Thomas Watkins, III
Barbara L. Johnson	Brian P. Woolfolk

ADMINISTRATIVE OFFICIALS

William & Mary

Katherine A. Rowe, President

Samuel E. Jones, Senior Vice President for Finance and Administration

Richard Bland College

Debbie L. Sydow, President

*only voting members included. Ex-officio and non-voting members not listed.