

VIRGINIA MILITARY INSTITUTE

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Virginia Military Institute for the year ended June 30, 2012, 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
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards.

We have audited the basic financial statements of Virginia Military Institute as of and for the year ended June 30, 2012, and issued our report thereon, dated April 25, 2013. Our report, included in the Virginia Military Institute's Annual Financial Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Virginia Military Institute's website at www.vmi.edu.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	3-4
INSTITUTE RESPONSE	5-6
INSTITUTE OFFICIALS	7

AUDIT FINDINGS AND RECOMMENDATIONS

Ensure Termination Procedures are Followed

The Virginia Military Institute (Institute) does not ensure supervisors submit the required Human Resources forms included in the Personnel Clearance Procedures, General Order 35, when an employee terminates. Completion and submission of these forms help ensure that keys, purchasing cards, travel cards, and any other sensitive items or institutional assets are recovered at termination; systems access is removed; and the employee's payroll status is made inactive in a timely manner. For all employees tested, these forms were not present.

Symptomatic of the issues this causes, our review of eVA found that two of the four employees with eVA access, who terminated during the fiscal year, did not have their access removed timely. Further, the Institute's "mass cleanse" report, created by the Information Technology department to identify employees who have not been paid for a length of time, routinely identifies terminated employees who still have access to the system and whose payroll status is still active. This creates the risk that terminated employees could continue to receive pay checks when they are no longer working.

While the "mass cleanse" report does provide a limited compensating control for certain system access and payroll risks, it is run sporadically, not formally documented, and does not facilitate the return of sensitive items, Institute property, or removal of access to other systems.

The Institute should evaluate its termination procedures for all classes of employees to ensure the return of sensitive items, prompt removal of system access, and proper handling of final payroll activities. The Institute should ensure supervisors complete and submit the appropriate documentation promptly for all terminated employees. Finally, if the Institute continues to use the "mass cleanse" report to support termination activities, it should document the process in its policies and procedures, including the frequency for the report to be run and reviewed.

Improve Administration of eVA Security

The Institute's administration of eVA, the Commonwealth's electronic procurement system, is inconsistent with Commonwealth policy and increases the risk of improper procurement requests and approvals. As a result the following weaknesses and instances of non-compliance were noted:

- The procurement office authorizes the creation and deactivations of user access and maintains related forms for the processes. Authorization should be performed by the Institute's designated eVA security officer, who is independent of the procurement function.
- The Institute did not formally designate a back-up eVA Security Officer as required by Commonwealth policy. As with the primary eVA Security Officer, an appropriate back-up officer should not have final approval authority within eVA for procurements, expenditures, or receiving.

- Two out of four employees with eVA access who terminated during fiscal year 2012 did not have their access removed timely. As a web-based application, users can access the system from anywhere. Failure to deactivate user access timely could result in the entry and/or approval of unauthorized purchase orders.
- Two of the five new eVA users in fiscal year 2012 did not have signed acceptable use policy forms on file. Lack of awareness of the acceptable use of eVA increases the risk that they could process improper requests and approvals.

The Institute is approaching the user limit to be eligible for delegated security authority. Should the Institute choose to have this authority delegated, internal policies and procedures to manage the addition, modification, and deletion of user accounts are required.

Non-compliance with Commonwealth policies results in weak internal controls surrounding the system and increases the risk of inappropriate purchases being entered and authorized. The Institute should comply with the Commonwealth policies and evaluate the need to document internal eVA security policies and procedures specific to its operations to improve eVA security.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 25, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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 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, 2012, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated April 25, 2013. Our report includes 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 the component units of the 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

Management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Institute'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 Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiencies in internal control over financial reporting entitled "Ensure Termination Procedures are Followed," and "Improve Administration of eVA Security," which are described in the section titled "Audit Findings and Recommendations," that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. The instance of noncompliance and other matters, entitled "Improve Administration of eVA Security" is described in the section titled "Audit Findings and Recommendations."

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

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 May 1, 2013.

AUDITOR OF PUBLIC ACCOUNTS

JBS/alh

VIRGINIA MILITARY INSTITUTE

LEXINGTON, VIRGINIA 24450-0304

DEPUTY SUPERINTENDENT
(FINANCE, ADMINISTRATION AND SUPPORT)
Office 540-464-7321
Fax 540-464-7169
Virginia Relay/TDD dial 711

May 7, 2013

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

Dear Ms. Mavredes:

The Virginia Military Institute (VMI) has reviewed the Auditor of Public Accounts' (APA) Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the fiscal year ended June 30, 2012. The Institute appreciates the opportunity to respond to the findings and recommendations. Accordingly, VMI provides the following responses for inclusion in the report.

AUDIT FINDINGS AND RECOMMENDATIONS

Ensure Termination Procedures are Followed

The Institute concurs with the APA that it has not enforced portions of General Order 35, Personnel Clearance Procedures, which dictates the forms to be completed for a departing employee. Specifically, the forms in question are the Exit Checklist and Exit Alert.

The Exit Checklist is completed by the departing employee's supervisor and is intended to ensure that all VMI property is returned, including keys, purchase cards, etc. Per the Institute's written policy, this checklist is to be submitted to the Human Resources Office to be placed in the employees file. Although it was specified in the policy, the form itself did not indicate that it should be sent to Human Resources. Human Resources had not been requiring these forms to be submitted. The Institute is re-evaluating its policies and procedures with regard to this form.

The Exit Alert is completed by the departing employee's supervisor and is intended to be used by HR to remove the individual from payroll and initiate notification across Post to ensure deactivation of system access and purchasing cards, etc. While the written policy states that this form is to be used for all employees, in practice Human Resources had not required the form be submitted for part-time or temporary employees. In addition, if Human Resources was otherwise notified of an employee's departure they did not always require a form to be submitted. There were no instances noted in which the lack of this form delayed the termination of the departing employee's access.

VMI is evaluating its policies and procedures with regard to the Exit Alert form, particularly its use for part-time and temporary employees. Typically, these types of employees do not have system access



and for certain groups, such as tutors that are used on an as needed basis, it is difficult to establish a separation date. In practice, the mass cleanse process, although not formally documented, is used to capture these terminations.

We concur with the APA that the Institute needs to evaluate its termination procedures for all classes of employees to ensure the return of sensitive items, prompt removal of system access and proper handling of final payroll activities. We also concur regarding the need to be diligent in documenting the internal controls necessary to mitigate these risks and enforcing these controls as documented.

Improve Administration of eVA Security

The Institute concurs with the APA that certain of its practices were not in compliance with eVA Security Standards. We also agree that these findings increase the risk that inappropriate purchases could be entered and authorized in eVA. VMI believes that it would identify such inappropriate use on a timely basis, primarily through compensating controls within its accounts payable process, which would detect the usage prior to an invoice being processed for payment. We are in the process of examining and documenting our internal processes to ensure future compliance with eVA Security Standards, which will enhance our controls on purchase initiation.

VMI is committed to addressing these audit findings and recommendations. We would like to thank you and your staff for your continued collaboration and support.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Green". The signature is fluid and cursive, with the first name "Robert" being more prominent and the last name "Green" following in a similar style.

Robert L. Green

Brigadier General

Deputy Superintendent for Finance, Administration and
Support

CC: GEN J.H. Binford Peay, III
LTC Irma J. Bailey

VIRGINIA MILITARY INSTITUTE

BOARD OF VISITORS

Paul D. Fraim
President

John P. Jumper
Vice President

George P. Ramsey
Vice President

James E. Rogers
Vice President

John C. Allen
Elizabeth D. Camp
P. Wesley Foster, Jr.
Paul E. Galanti
Bruce C. Gottwald, Jr.
Ronald H. Griffith

Patricia P. Hickerson
Kimber L. Latsha
Daniel E. Long, Jr.
Anthony Q. McIntosh
G. Marshall Mundy
W. Gregory Robertson

Ernesto V. Sampson, Jr.

Joseph I. Munno, Cadet Representative

Michael M. Strickler
Secretary of the Board of Visitors

OFFICERS

J.H. Binford Peay, III
Superintendent

Robert L. Green
Deputy Superintendent, Finance, Administration and Support

Irma J. Bailey
Comptroller