



NORFOLK STATE UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, and issued our report thereon, dated November 3, 2014. Our report, included in the University's basic financial statements, is available on the Auditor of Public Accounts' website at www.apa.virginia.gov and at the University's website at www.nsu.edu. Our audit of the University found:

- the financial statements are presented fairly, in all material respects;
- deficiencies which we consider to be material weaknesses in internal control over financial reporting;
- additional items which we consider significant deficiencies in internal control;
- noncompliance required to be reported under Government Auditing Standards; and
- certain items previously reported, for which the University has not implemented appropriate corrective action.

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FINANCIAL INTERNAL CONTROL AND COMPLIANCE FINDINGS

Continue to Develop and Implement Policies and Procedures

The University lacked policies and procedures related to key financial reporting and accounting functions, which resulted in inconsistent preparation and compilation of financial statement schedules and financial data during fiscal year 2013.

Consistency, with regard to preparation and presentation of financial data, is an essential principle of accounting. Without consistency in preparation of financial schedules, it is nearly impossible to compare financial information between periods. In addition, the lack of policies and procedures in this area greatly increases the risk of error and misstatement of financial information. Lack of policies and procedures also increases the risk, in the event of the departure of a key employee, that the University will be unable to perform required functions in an efficient, effective, and timely manner.

Status of Corrective Action Plan

Due to the completion of the fiscal year 2012 audit in August 2014, the University was unable to implement meaningful corrective action to resolve our finding during fiscal year 2013. The lack of clearly documented policies and procedures during the period under audit constitutes a material weakness in internal control and resolving this weakness will enable the University to avoid potentially catastrophic lapses in operational functionality. Based on management's self-reported corrective action plan, University personnel have received detailed training on the University's financial system and have updated and posted finance and administrative policies. Updated desk procedures for financial reporting processes have been included on a shared drive accessible by all Financial Reporting staff. Management updated policies and procedures regarding financial statement preparation while preparing the fiscal year 2014 financial statements. We will review these procedures for sufficiency during the completion of the fiscal year 2014 audit.

Additionally, University management notified University personnel of the Policy Library, which can now be accessed through the University website. The Policy Library includes Board of Visitors policies, presidential policies, administrative policies, and any interim policies governing the University's operations. University management should continue to refine and update policies and procedures within the departmental shared drives and the Policy Library as they make changes in operations to prevent future significant lapses in internal control.

Improve Year-end Financial Reporting Process

The review process used to prepare the fiscal year 2013 financial statements was ineffective, resulting in thirty-eight material adjustments to financial information presented in the University's financial statements. To prepare the fiscal year 2012 and 2013 financial statements, the University sought outside assistance and contracted with a public accounting firm. The firm developed a grouping

spreadsheet, which summarized activity by financial statement line item, starting with balances from the financial accounting system and then adding any necessary adjusting entries. While this process was an improvement over the process used in 2011, there appeared to be insufficient review of the preparation process by University management. During fiscal year 2012, we noted instances of improper mapping of accounts within the grouping spreadsheet, which then required material adjustments to the financial statements. Management corrected these mapping errors for fiscal year 2013. In addition to the errors related to the financial statements, we noted inconsistencies and inaccuracies in financial statement footnote disclosures. Many of the footnotes lacked required elements as prescribed by the Government Accounting Standards Board (GASB), and as such, required revision.

Additionally, due to timing and staffing constraints, the University did not complete submissions to the Department of Accounts for consolidation in the Commonwealth's Comprehensive Annual Financial Report for 2013. As the Department of Accounts relies on the information submitted by the colleges and universities, it is essential that the University properly complete and submit all required information to ensure fair presentation of the Commonwealth's financial report.

Status of Corrective Action Plan

Due to timing, the University was unable to implement corrective action related to this finding during preparation of fiscal year 2012 and 2013 financial information; however, during fiscal year 2014, University personnel received training using report writing software and utilized this software to prepare the fiscal year 2014 financial statements. During the completion of the 2014 financial statements, the University documented the procedures used to generate the financial statements, footnotes, and year-end submissions. These procedures, which we will review for sufficiency during the completion of the fiscal year 2014 audit, will help ensure compliance with accounting standards and aid in consistency of presentation from year to year.

Properly Maintain Documentation for Audit

Throughout the audit of the University's financial statements, we continued to note missing or incomplete audit documentation. In some cases, there was insufficient documentation to support the specific item selected for testing. Specifically, the University's Procurement and Accounts Payable Departments did not maintain original voucher and contract documentation for Equipment Trust Fund reimbursement requisitions, small purchase charge cards (SPCC), expenses, contracts, and prepaid expenses. While we were ultimately able to obtain sufficient appropriate audit evidence to support the individually published financial statements, the lack of an audit trail represents an issue that could have a significant impact on the audit process. If auditors are unable to obtain sufficient appropriate audit evidence due to lack of documentation, it could result in the inability of the auditor to provide an opinion on the financial statements.

The inability to locate needed supporting documentation for audit requests resulted in delays during the audit. Although some documentation was located, the delays resulted in inefficiency on

the part of both the auditors and University staff in attempting to support the financial statements. In addition, the inability to locate supporting documentation related to contract procurement and management may be indicative of noncompliance with the Agency Procurement and Surplus Property Manual (APSPM). Inadequate supporting documentation increases the risk of improper payments to vendors, improper procurement, and possibly fraud.

Recommendation

The University initially responded to this finding during the fiscal year 2011 audit by implementing a central location and shared drive for storing audit information; however, utilizing the shared drive for storing audit information does not eliminate the requirement for maintenance of hardcopy supporting documentation such as vouchers and contract documentation. Continuing to utilize this process to ensure all information, including electronic documentation, is available and promptly provided for audit requests will significantly decrease the burden on the auditors and University personnel and will decrease the amount of time required to complete the audit. In addition, the Procurement and Accounts Payable Departments should review their processes for maintaining hardcopy supporting documentation and ensure proper design and effectiveness of internal controls. The University should maintain supporting documentation relating to SPCC purchases and expenses centrally in Accounts Payable and maintain all contract information centrally in Procurement contract files.

Properly Perform Reconciliations of Bank Accounts and Accounting System

As noted in our previous audit report, the University lacked resources to promptly reconcile its primary bank account, as well as complete the reconciliation of the University's accounting system to the Commonwealth Accounting and Reporting System (CARS) during the fiscal year under audit. While the University has now completed past due reconciliations, the reconciliation control was not effective during the audit period.

During our review of the reconciliations and supporting documentation, we noted many reconciling items. Despite properly identifying reconciling items, University employees did not use them to reflect properly the appropriate activity in the accounting system. In addition, supporting documentation for reconciling items was unavailable or improperly maintained, and as such, was not available to the auditors. Often, University staff were unable to explain sufficiently the existence of the reconciling items and, as a result, these items continued to accumulate on each subsequent reconciliation. Many of these reconciling items may be attributed to the change in accounting systems between fiscal year 2011 and 2012, and the untimely preparation of the reconciliations, which occurred subsequent to the completion of the fiscal year.

While the completion of the reconciliations is an important part of the process, an equally important part of the process is ensuring that reconciling items have resulted in adjustments to the system. Researching reconciling items and adjusting the system, when necessary, ensures financial information is up to date and accurately reflects the current financial position of the University.

Additionally, appropriately accounting for reconciling items reduces the risk of inappropriate activity, which may go unnoticed if reconciling items are allowed to accumulate on reconciliations.

Recommendation

The University responded to this finding from the fiscal year 2011 audit report by implementing new reconciliation procedures; however, due to the completion of the fiscal year 2011 audit in September 2013 these new reconciliation procedures were not implemented until fiscal year 2014. The University should continue to improve their reconciliation process by using their newly developed desk procedures. Following these procedures will ensure that the University performs timely and effective reconciliations between the accounting system and all bank accounts, as well as CARS. The University should ensure that the new reconciliation procedures include investigating all reconciling items and adjusting the system where appropriate. Reconciling items should not continue to accumulate from month to month, and the University should also ensure that the new procedures include a review process to ensure proper completion of reconciliations and posting of adjustments.

Correct Deficiencies in Fixed Asset Management Program

As noted for the last three fiscal years, the University had several deficiencies in internal control related to proper stewardship of fixed assets. These deficiencies included improper disposal of fixed assets; untimely completion of fixed asset physical inventories; and improper recording, tagging, or otherwise controlling fixed assets, including equipment. As expected, due to timing, we noted similar deficiencies during our fiscal year 2013 audit.

During our procedures, we noted the following:

- University staff did not properly identify expenses as fixed assets and; therefore, did not appropriately tag or accurately reflect cost or useful life of these items in the fixed asset system. This deficiency resulted in improper depreciation of assets and adjustments to the financial statements.
- University staff did not properly identify and track construction in progress expenses using the construction in progress schedule. Construction in progress did not properly include expenses for multiple projects, which University personnel recorded directly to the appropriate finished capital asset category. One project remained in construction in progress despite having a completion date several years prior to the fiscal year under audit. Recording this project as construction in progress, rather than properly capitalizing the expenses, resulted in improper depreciation of the asset. Each of these instances resulted in adjustments to the financial statements.

- The University demolished a building with a net book value of just over \$2 million during fiscal year 2013; however, University staff did not properly dispose of the building within the fixed asset module of the accounting system. Including this building in the fixed asset module, despite its demolition during the fiscal year, resulted in improper recording of depreciation of the asset, as well as improper recognition of the loss associated with the asset. This instance also resulted in an adjustment to the financial statements.
- The University did not perform a physical inventory of capital assets until fiscal year 2014, which is four years after the performance of the last complete physical inventory. The delay in performing the inventory resulted in noncompliance with the Commonwealth Accounting Policies and Procedures Manual.
- The University fully implemented the Colleague financial system at the beginning of fiscal year 2012; however, as of fiscal year end 2013, University staff did not reconcile the Colleague General Ledger and Colleague Fixed Asset modules.
- University staff used inaccurate schedules to generate financial statement information, resulting in multiple adjustments during the audit process.

Recommendation

As noted in previous audits, the lack of physical inventory, insufficient tagging of equipment, improper recording of assets in the fixed asset system, improper tracking of construction in progress, lack of reconciliations, and errors in financial reporting present a significant risk of misappropriation of assets from the University. The University has been working to correct deficiencies in this area, with the intent to correct the problems for fiscal year 2014 and fiscal year 2015. In addition to the items previously communicated, the University should develop and implement a process for ensuring that it properly tracks and records all construction expenses using the construction in progress schedule, rather than adding expenses directly to the appropriate capital asset category within the capital asset footnote. The University should perform monthly reconciliations between the Colleague General Ledger module and Colleague Fixed Asset module, identify reconciling items, and make necessary adjustments to the system. This procedure will help ensure evaluation of expenses to determine proper inclusion or exclusion from the fixed asset module. In addition, the University should continue to perform full inventory counts every two years to help ensure proper tagging, and addition or disposal of assets from the fixed asset module. The University should also review information used to create the financial statements to ensure it is reasonable and properly prepared prior to preparing the financial statements.

Perform Internal Control Risk Assessment Procedures

As outlined in the Commonwealth's Accounting Policies and Procedures (CAPP) Manual topic 10305, each agency head is responsible for having agency management document the agency's assessment of internal controls to include:

- Strengths, weaknesses, and risks over the recording of financial transactions in the General Ledger;
- Compliance with the agency's financial reporting requirements;
- Compliance with laws and regulations; and,
- Stewardship over the Commonwealth's assets.

The initial implementation of Agency Risk Management and Internal Control Standards (ARMICS) included the documenting, evaluating, and testing of agency-level controls. The Department of Accounts provides that once the University successfully implements the process, the institution should refresh and refine the evaluation each year. Ultimately, the agency head is required to certify that they have established, maintained, and evaluated the agency's internal control framework.

Management of the University properly disclosed, to the Department of Accounts, their inability to certify the required information for fiscal year 2013. As part of the communication with the Department of Accounts, management indicated the need to empower an ARMICS coordinator to complete a comprehensive review and testing of the University's system of internal control, prior to the subsequent required ARMICS certification.

Status of Corrective Action Plan

The University hired an ARMICS coordinator in May 2014 to perform and document the required ARMICS reviews. The University certified completion of ARMICS in September 2014 for the fiscal year ended June 30, 2014. While this process is now in place, we have not yet performed audit procedures to determine if the process is working as intended. We will perform follow-up procedures to assess the institution's corrective action as part of the fiscal year 2014 audit.

Strengthen Internal Controls over Grants Management

The University's Grants Accounting Department (Grants Accounting) does not have proper internal controls for tracking, recording, and reporting federal grant activity.

During our review, we found inaccurately recorded grants on the University's Grant Roll forward Schedule, which calculates year-end receivable amounts for individual grants. We noted instances where revenues recorded on the schedule did not agree to the University's financial system. Additionally, we observed instances where employees incorrectly posted revenues to the

wrong grant, recorded revenue receipts twice, and failed to post revenues received to the applicable grant.

According to 2 CFR § 215.21(b), the University's financial management system should be sufficient to:

- ensure accurate, current and complete disclosure of financial results of each federally-sponsored project or program;
- provide effective control over and accountability for all funds; and,
- provide accounting records, including cost accounting records, which are supported by source documentation.

Proper reporting of grant activity is essential to the University's internal and external decision makers. Insufficient controls governing grants management can lead to improper drawdown of funds, the misuse of funds, or misstatement of the amounts reported in the financial statements. Continuous and significant deficiencies in grants management can result in sanctions or loss of funds at the discretion of the federal awarding agency. Based on the internal control deficiencies noted, we performed detailed audit work over individual grants resulting in a decrease of approximately \$254,892 in grant-related deferred revenue and \$231,240 in grants receivable in the University's final audited financial statements.

The deficiencies noted are likely the result of Grants Accounting's attempt to move from a cash basis to an accrual based accounting for its grants receivable. At the time of our review, Grants Accounting was still in the process of revising its Grants Roll Forward Schedule to adapt to the new approach. Accordingly, Grants Accounting did not have adequate policies and procedures to ensure consistent accounting of grant transactions to properly prepare and calculate balances in the Grants Roll Forward Schedule.

Recommendation

Management has indicated that it is currently evaluating and updating grant process flows and procedures, to include tracking, recording, and reporting grant activities in the University's accounting system. As part of updating the policies and procedures, University management should continue to examine the current setup and capabilities of the financial management system to ensure it can achieve effective and efficient management and reporting of federal grant awards. Improving grant management practices will improve recording and reporting of grant funds and prevent potentially negative impacts on funding.

Improve Overtime Internal Controls and Processes

The University does not have policies and procedures surrounding the reporting of overtime. During our review, we found that the process for submitting overtime is inadequate. Employees and supervisors continuously submit overtime for payment late and forms are improperly completed.

During our audit, we noted several employees with multiple overtime forms submitted during the fiscal year, which had various issues. One employee submitted overtime forms weeks after completing the required overtime, thus causing the Payroll Department to process the overtime four to five months after the overtime occurred. Multiple overtime forms lacked some of the necessary approval signatures and in some instances, employees obtained approval signatures after the overtime was completed. In addition, there were two instances where the Payroll Department could not provide original supporting documentation for overtime processed.

Effective overtime controls are essential in minimizing the opportunity for abuse and increasing the efficient use of University resources.

Recommendation

University management is currently reviewing University policy to ensure it complies with state policy and best practice. The University should ensure all employees are aware of the policies and procedures and hold employees accountable when policies are not followed. In addition, the University should maintain original supporting documentation for all overtime performed.

Enhance System Access Controls

The University is not promptly terminating system access upon separation of employees from the University. In addition, the University has inappropriately assigned employees in Auxiliary Services access to Colleague, which is not necessary to perform their core job responsibilities.

Promptly Remove System Access

The University did not remove Building Information Tracking System (BITS) and Lease Accounting System (LAS) access timely for three employees. The University terminated the employee's access one month to nineteen months after the employee's separation from the University. SEC 501 Section 5.2.2.23-24 requires the prompt removal of system access for terminated or transferred employees. The system administrator should remove access as close to the employee's date of separation as administratively possible. While we found no evidence of these employees accessing the system after their termination date, untimely removal of user access increases the risk of unauthorized transactions and could impact the integrity of the Commonwealth's financial systems as well as the University's financial statements.

System Access – Least Privilege

The University assigned Auxiliary Services employees access within Colleague that allows them to create general ledger accounts, which is not needed to perform their core job functions. As a compensating control, the University Controller generates a report of the chart of accounts to identify any new accounts. However, the University should consider each employee's access to all functions across all systems when managing access, and assign access in accordance with the principal of least privilege. Without properly designed system controls, the University is not able to effectively monitor or prevent actions taken by employees. Inappropriate or unnecessary access to the University's systems reduces management's ability, in the normal course of performing their assigned functions, to prevent or detect errors in a timely basis.

Recommendation

The University should improve its access review process to ensure that access is only granted based on the principal of least privilege and that levels of access are updated as employees separate from the University to mitigate the risk of unauthorized access and transactions.

Improve Accounts Payable Processes

The University's Accounts Payable Department (Accounts Payable) did not adequately perform cut-off procedures for year-end expenses or comply with prompt payment provisions as specified by the Code of Virginia. Departments send invoices to Accounts Payable for processing; however, Accounts Payable does not properly time/date stamp the invoices upon receipt to support prompt payment of the invoice. In addition, departments within the University do not always promptly send invoices to Accounts Payable in a timely fashion for processing of payment.

In accordance with generally accepted accounting principles, expenses should be recognized in the periods for which the goods or services are received. Additionally, in accordance with Commonwealth Accounting Policies and Procedures, all payments to non-governmental and privately-owned businesses should be paid the later of 30 days after the receipt of the goods, services, or invoice. The procedures outlined in topic 20300 ensure compliance with prompt pay requirements detailed in the Code of Virginia, Sections 2.2-4347 through 2.2-4356 and 2.2-5004.

During our review, we found multiple vouchers improperly coded resulting in material adjustments to accounts payable on the financial statements. In addition, we identified seven instances where payment did not occur within the appropriate time limit.

Improper designation of vouchers as payables can result in misstatements to the financial statements and can improperly shift expenses between fiscal years. Additionally, insufficient controls over time and date stamping invoices upon receipt can lead to deficiencies in prompt payment of invoices as well as identification of year-end payables.

Recommendation

The Accounts Payable Department should ensure that all invoices are date stamped on the date received. The University should review the procedures for determining year-end accounts payable to ensure all amounts included as “P Vouchers” are for services performed during the applicable fiscal year. In addition, the University should stress the importance to departments of providing Accounts Payable with invoices as soon as the items are received, so that they can ensure timely payment to vendors.

Improve Controls over Prepaid Expenses

The University’s Accounts Payable Department did not adequately recognize prepaid expenses at fiscal year-end. In addition, Accounts Payable did not maintain policies and procedures for recognizing prepaid expenses in accordance with generally accepted accounting principles. During our review, we determined the University improperly classified two vouchers. University personnel improperly included one voucher, for services not completed until fiscal year 2014, as a fiscal year 2013 expense, rather than a prepaid expense. Additionally, staff improperly recognized one voucher, for services performed between November 2012 and March 2013, as a prepaid expense, despite all services occurring during the fiscal year. In accordance with generally accepted accounting principles, expenses paid before the service is complete should be recognized as an asset and expensed as the service occurs.

The voucher related to fiscal year 2014, resulted in an understatement of the prepaid expense line item by \$329,049. The voucher related to services completed in 2013 resulted in an overstatement to the line item of \$7,013. It was determined that these instances resulted from inadequate procedures for recognizing prepaid expenses and staff without the requisite training or knowledge to properly recognize the expenses as prepaid.

Recommendation

Accounts Payable should develop and implement procedures for determining prepaid expenses to ensure all amounts are properly included or excluded as prepaid expenses at year-end. During the development of these procedures, Accounts Payable should evaluate the current process used to identify prepaid expenses to ensure that it is adequate and adjust accordingly.

Improve Controls Over the Write-Off Process

The University’s Controllers Office (Controller’s Office) did not properly write-off bad debts for fiscal year 2013 within the financial system.

During our review of student accounts receivable, we determined that the Bursar’s Office processed two write-off allocations during the fiscal year under review, one in March 2013 and

another in June 2013, for a total of approximately \$760,828. The Bursar's Office properly allocated the bad debt within the student system. However, the Controller's Office failed to book the bad debt to the financial system's general ledger resulting in a material overstatement of student receivables reported on its financial statements.

In the normal course of reporting, the University waits until year-end to post its write-offs to the financial system. Failure to properly account for accounts receivable and related bad debt in a timely manner can negatively impact the University's cash flow and increases the risk of material misstatement to the University's financial statements.

Recommendation

University management, upon approval of the write-off amount, should record its bad debts in both the student and financial systems. Recording the write-off at the point in time of approval instead of at year-end, will provide some assurance that the University is properly accounting for its bad debt.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 3, 2014

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, 2013, and related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 3, 2014. 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 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 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 “Financial Internal Control and Compliance Findings,” 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 following deficiencies, which are described in the section titled “Financial Internal Control and Compliance Findings,” to be material weaknesses.

- Continue to Develop and Implement Policies and Procedures
- Improve Year-end Financial Reporting Process
- Properly Maintain Documentation for Audit
- Properly Perform Reconciliations of Bank Accounts and Accounting System
- Correct Deficiencies in Fixed Asset Management Program
- Strengthen Internal Controls over Grants Management
- Improve Accounts Payable Processes
- Improve Controls over Prepaid Expenses
- Improve Controls over the Write-Off Process

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 following deficiencies, which are described in the section titled “Financial Internal Control and Compliance Findings,” to be significant deficiencies.

- Perform Internal Control Risk Assessment Procedures
- Improve Overtime Internal Controls and Processes
- Enhance System Access Controls

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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards. The instance of noncompliance and other matters, entitled “Strengthen Internal Controls over Grants Management” is described in the section titled “Financial Internal Control and Compliance Findings.”

The University’s Response to Findings

We discussed this report with management at an exit conference held on November 3, 2014. 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 completely implemented corrective action with respect to the previously reported findings “Continue to Develop and Implement Policies and Procedures,” “Improve Year-end Financial Reporting Process,” “Properly Maintain Documentation for Audit,” “Properly Perform Reconciliations of Bank Accounts and Accounting System,” “Correct Deficiencies in Fixed Asset Management Program,” “Perform Internal Control Risk Assessment Procedures,” “Strengthen Internal Controls over Grants Management,” and “Improve Overtime Internal Controls and Processes.” Accordingly, we included these findings in the section entitled “Financial Internal Control and Compliance Findings.” The University indicates they have completed corrective action regarding findings included in the “Federal Internal Control and Compliance Findings” section of the fiscal year 2012 report. These findings pertain to federal audit work completed to support the statewide Single Audit for fiscal year 2013, and we will complete a follow-up on the status of the University’s corrective action plan as part of the fiscal year 2014 statewide Single Audit. 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/alh

November 3, 2014

Ms. Martha Mavredes
Auditor of Public Accounts
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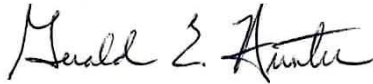
Dear Ms. Mavredes:

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, 2013 and is in agreement, in principle, with all of the findings submitted.

Attached for your consideration is a brief update as to where the campus is with respect to progress on the findings. 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 E. 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 2013 - Financial Internal Control & Compliance Findings

Continue to Develop and Implement Policies and Procedures

- The current administration has addressed the lack of policies and procedures by updating and creating policies when appropriate and have made them available in the policy library on NSU's website.
- Key financial reporting and accounting procedures have been updated, including but not limited to procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), wire transfers and financial statement preparation. Policies and procedures will continue to be updated as we identify changes in processes and operations.

Improve Year-End Financial Reporting Process

- The ineffectiveness of the review of the financial statements was due to key positions being vacant during the preparation of the fiscal year 2013 financial statements. In order to prepare the statements timely the contracted accounting firm, with help from the existing staff, pulled together the financial statements using a new trial balance method which grouped the detailed accounting strings into financial statement line item categories.
- Personnel have received training on the University report writing tool, Synoptix which was used to develop the Trial Balance Grouping Report, the Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position for fiscal year 2014.
- For preparation of the fiscal year 2014 financial statements, management has taken steps to identify year-end entries needed and posted them to the system; therefore, reducing the need for manual entries to the financial data.
- All support and documentation related to the financial statements, footnotes, and adjusting entries are saved in a central location on the Financial Services shared drive.

Properly Maintain Documentation for Audit

- The Controller has implemented a central location to store audit information and has granted the APA access to information needed to complete the 2013 audit. This central location and information sharing methodology will continue to be utilized for all future audits.
- Procurement Services has changed its practice and now files all documentation for competitively awarded formal term contracts in a central location. Additionally, the Associate Director reviews file documentation before term contracts are filed. Documentation for informal contracts are now filed electronically with the eVA order or on NSU's centralized internal N drive by requisition number. Accounts Payable has also changed its practice and now requires all original vouchers and supporting documentation to remain within the Accounts Payable Department. Requested documentation can be copied or reviewed within the Accounts Payable Department.
- NSU will continue to have cardholders maintain receipts within their departments. This is the common practice of state agencies. To better manage the SPCC program, NSU created a SPCC Administrator position which is responsible for training cardholders, conducting spot audits, and other related duties to maintain compliance. The position was filled this year. Moving forward, cardholders that are unable or unwilling to maintain required documentation will be denied use of a University charge card, after adequate warning.

Properly Perform Reconciliations of Bank Accounts and Accounting System

- Reconciliation procedures and processes have been updated. Reconciliations are reviewed monthly and reconciling items are being addressed timely for posting.

Correct Deficiencies in Fixed Asset Management Program

- Fixed Asset policies and procedures have been updated and posted on the NSU's policy library on the University's website (<https://www.nsu.edu/president/policy-library/administrative-policy>.)
- The University has filled two full-time fixed asset positions. The fixed asset accountants have begun performing monthly reconciliations between general ledger module and fixed asset module within the Colleague Financial System to ensure assets are properly capitalized in the fixed asset module.
- During fiscal year 2014 the University conducted a campus wide physical inventory. The information received from the physical inventory conducted by an external firm was use to update the fixed asset module within the University's financial system. All documents related to fixed asset changes made have been provided to the auditors through the central audit location on the shared drive. The University will continue to perform a full inventory count every two years to ensure proper tagging, and addition or disposal of assets from the fixed asset module.
- Key positions within the Controller's Office have been filled which will allow proper review of all fixed asset information prior to preparing the financial statements.

Perform Internal Control Risk Assessment Procedures

- The University has filled the ARMICS Coordinator position in May 2014 and completed the fiscal year 2014 ARMICS Internal Control review. The University certified completion of ARMICS in September 2014 for the fiscal year ended June 30, 2014.
- The ARMICS Coordinator will continue to work with departments to follow-up on corrective actions plans to ensure the University is on target with the plan. Staff continues to work on addressing changes in internal controls and areas of concern on an ongoing basis.

Strengthen Internal Controls over Grant Management

- Management is currently engaged in reviewing and updating grant process flow and procedures. All grant budgets and expenditures are entered in the financial system and tracked using a unique grant project number.
- The Grants and Contracts Department internal controls have improved for tracking, recording, and reporting grants activities within the financial system. Management will continue to improve processes to ensure accurate and timely grant recording and reporting.

Improve Overtime Internal Controls and Processes

- Human Resources and Payroll are in the process of developing and reviewing Overtime Policies and Procedures to ensure compliance with state policy and best practices. The finalized policy will be made available to all employees and posted on NSU's policy library on the University's website.

Enhance System Access Controls

- BITS and LAS access are managed by departments within Finance and Administration. Management will review and document procedures related to timely removal of access. Additionally, as part of the ongoing internal control assessment, the ARMICS Coordinator will perform periodic access testing to ensure that only appropriate employees have access to administrative systems managed outside of the Office of Technology.
- Due to staff vacancies in key positions during fiscal year 2013, Auxiliary Services employees were given temporary assignments of creating new general ledger accounts. Key positions have been filled within the Finance and Administration Division and the account creation function has been limited to the Controller's Office. Annually, a review of access is performed by Colleague data owners and the Office of Information Technology. At this time all access to Colleague is reviewed and changes are made accordingly. During the 2014 review the account create function was taken away from Auxiliary Services.

Improve Accounts Payable Processes

- The Accounts Payable Department is now appropriately staffed. Invoices are date-stamped when received within the Accounts Payable Departments. Management will review current processes and make any necessary adjustments to ensure year-end accounts payables are properly reported. We will continue to stress to the departments the importance of adhering to the University's policies and submitting invoices in a timely manner to Accounts Payable for processing. This topic will be addressed by Management as a part of one of our upcoming Financial and Administration Business Forums held monthly for budget managers and department heads from across campus.

Improve Controls over Prepaid Expenses

- The Accounts Payable Department is currently fully staffed and the staff have been trained on how to identify prepaid expenses. The Accounts Payable Manager and Controller's positions have been filled which will ensure proper review of the prepaid expenses prior to the preparation of the financial statements. Management will review current processes and document prepaid expenses procedures to ensure prepaid expenses are properly identified.

Improve Controls over the Write-Off Process

- Due to staff vacancies in key positions within the Controller's office the bad debt expense was not recorded timely in the general ledger. Key positions within the Controller's Office have been filled and write-off for bad debt will be recorded in the general ledger at the point of approval by management. Procedures have been established to make sure the bad debt is recorded properly.

NORFOLK STATE UNIVERSITY

Norfolk, Virginia

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